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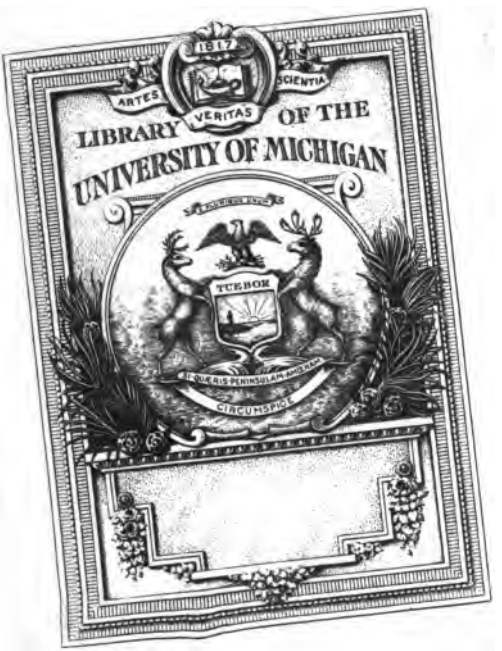
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The Trusts

What can we Do with Them?
What can they Do for Us?

BY

William Miller Collier

New York State Civil Service Commissioner; Author of "Collier on Bankruptcy," etc.

New York

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PREFACE

THE problem of the trusts is a momentous one, and yet it is unqualifiedly a new problem. The oldest of them (the Standard Oil Company) is eighteen years of age, but the great majority of these gigantic combinations have been established since 1897. Furthermore, those of most recent creation seem animated by somewhat different purposes than their prototype; and they present new problems or new phases of old problems.

There cannot be any doubt that the trusts are filled with great dangers to our industrial, social, and political system. To say that these dangers are "awful" is no misuse of the word. The great advantages of mammoth business organizations should not be overlooked. Such organizations are necessities in the present condition of American industries. They seem to be the only effective agencies whereby we can develop our much needed foreign markets, whereby we can dispose of our surplus products, and thus give constant employment to our workers and toilers. Much of our anti-trust legislation has overlooked this fact. There is, indeed, a danger that in our attempts to stop monopolies we may cripple our productive energies and stifle enterprise and bring our country into a condition of industrial degradation and into bankruptcy. To obtain, however, the most that can be obtained from trusts, to achieve the highest degree of success that can come from the use of trusts, it is absolutely necessary that we guard against their becom-

ing monopolies. The greatest, the speediest, and the most efficient remedy,—the one that should be first employed,—unquestionably is publicity; but it may be doubted if that is entirely sufficient, either theoretically or practically. Anti-trust laws which forbid monopolies, which endeavor to prevent all combinations that restrain all competition, which fix the punishment that shall be meted out to those who violate their provisions, which denounce as illegal and criminal all combinations that are formed for the purpose of raising prices or that actually do raise prices,—these laws are demanded not only by existing conditions, but by principles of right and justice. Anti-trust laws that aim to kill the great "octopi" that have reached out and gathered in all of the establishments in certain industries, not because of any economic superiority in these giant combinations, but because they are fed and pampered and nourished and sustained by special privileges,—anti-trust laws that aim to kill these "octopi" by the abolition of these special privileges, appeal not only to our sense of fairness, but to our common sense. They are likely to be most effective remedies. Their enactment and enforcement will in all probability kill many of the trusts and will surely do away with most of our trust evils. Similar laws requiring publicity of all those affairs of our giant corporations, which affect the public, and laws forbidding over-capitalization and also forbidding unfair "cut-throat" competition, give promise of speedy and lasting relief. Care must be taken, however, that we do not "kill the goose that lays the golden egg." Care must be taken that, in ridding our barn of rats, we do not cause the barn to be burned.

The book which is here presented to the public is in the nature of a study. It is our belief that the anti-trust legislation which has been enacted up to the present time, namely, that form of legislation which, in terms, has for-

bidden *any and every* combination of competitors, however great or small might be the combination; and which has forbidden *every* restraint upon competition, however reasonable or unreasonable such restraint might be, and however direct or indirect a result of the combination it might be,—this anti-trust legislation is ill-advised and is likely to be injurious. It clouds and obscures the real danger and the real evil. We must restrict and restrain and curb and limit; and there are some things which we must prohibit and prevent and make criminal and penal; but it is absolutely necessary that we know when to prohibit and when to limit; when to prevent and when to restrict.

In our first chapters we have endeavored to show the phenomenon of trusts, the existence and the mighty growth of industrial combinations, their various forms, and the economic and legal differences between them, their respective rights and liabilities before the law. We have sought in succeeding chapters to show the extent to which gigantic organizations of industry are an outgrowth of the conditions of modern competition, and have tried to set forth, fairly but fully, the great wastes of competition, and the great advantages as well as the disadvantges of the trust system. We have defined monopoly, not only as the term has been used for centuries in English jurisdiction, but as it has been modified by modern industrial conditions. We have endeavored to show the awful evils and dangers of monopoly,—of that absolute or sole power of sale of any article,—the complete and dominant control of any industry,—which is properly called monopoly, regardless whether it is the result of a special and exclusive legal right conferred by the sovereign or whether it is a power incidental to gigantic size. The effect of potential competition—its strength, its weakness, its limitations—is fully considered. Subsequent

chapters treat of the effect of trusts upon the wage-earners, especially those who are banded together in labor unions: also of the relation of trusts to displaced labor, and to the farmers. While there is unquestionably an underlying and an unceasing tendency towards larger and larger industrial organizations, we attempt to show in the chapter on "Trusts and Special Privileges" that in very many, if not in a majority, of the cases, trusts are the results of special privileges. The evils of over-capitalization form the subject of another chapter. The relations of the tariff and of expansion to trusts are also exhaustively discussed. That important phase of the question, the social phase, which is so often overlooked, has been considered in a chapter entitled "The Man and the Dollar," with special reference to Wm. J. Bryan's famous speech at the Chicago Trust Conference. The scope and extent of legislative powers over trusts, the constitutional limitations and restrictions, are also reviewed.

The momentous questions arising out of trusts, notwithstanding their comparative newness, have so far been the subject of denunciation rather than of consideration. There has been action rather than consideration, and legislation rather than discussion. So great are the dangers, on the one hand, of no action, and, on the other hand, of rash and improper action, that we feel that the proper character of a book upon the subject, at this time, should be that of a study or an inquiry, rather than a dogmatic treatise. The spirit of observation and of investigation is the spirit in which we can best approach the immense task of solving the trust problem. In that spirit we have endeavored to write this study of the great question of the day,—the great question of the age.

WM. MILLER COLLIER.

AUBURN, N. Y., July 4th, 1900.

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THE TRUSTS.

CHAPTER I.

THE DAY OF GREAT THINGS.

GREAT accomplishments are the results of great forces marshalled into great organizations. It is the day of great things,—great aims and great ambitions, great forces and great mechanisms, great undertakings and great accomplishments, great opportunities and great achievements, great men and great organizations. The greatness of to-day is, however, the greatness, not so much of creation as of combination, not so much of construction as of concentration. The century that is closing has been marvelous in its material development and in its industrial progress. What we have done is greater than the deeds of the ages that have preceded, because we have combined our efforts and have worked more and more in unison, if not in perfect harmony. What we shall do in the future is likely to dwarf even the mighty achievements of the present century, because our energies are more concentrated, our forces are better combined, our interests more nearly harmonized.

The tendency of the age towards great organizations manifests itself especially in those spheres of activity in which we can accomplish results only by some form of co-operation,—politics and economics, government and in-

dustry. The centuries that are gone witnessed many mighty nations,—empires that spread over the whole known world. But since despotism has been modified into limited monarchies or given place to republics, since representative and popular governments have come into existence, the nations of the world have never been larger or more powerful than to-day. We who are living have seen many struggling, discordant, wrangling states coalesce into mighty nations. Within forty years Italian unity has become an accomplished result after centuries of strife. We have hardly laid aside the school books in which we studied about the twenty or more petty kingdoms, duchies, principalities and free cities that now form the invincible German Empire. English colonies are scattered over the entire globe. Some of them reach up into the frozen Arctic; others lie in the vast Pacific in the southern hemisphere, antipodal to the mother country; some of them are in Europe, some in America, some in Africa, some in Asia and many others are islands of the sea. All of them enjoy to-day a greater independence and freedom than they ever had before; and yet the movement towards imperial federation of English colonies is growing irresistibly. Our own great civil war, with its bloody and costly strife, during which the doctrine of State rights and the heresy that this union was a perishable and destructible temporary federation were burned up in the fire of battle, was one of the strongest proofs that the tendency towards centralization and combination in government can not be overcome.

But the striking fact of the history of the century has been the tendency towards industrial consolidation. Business organizations are mammoth in size; business undertakings are gigantic in their scope; business management is of infinite detail. The cause of all this is that business opportunities have so mightily increased in size

and number. The great improvements in the means of travel and transportation and communication have revolutionized every kind of business. Railways are trans-continental; the world is girt with cables; telegraphs and telephones permit such immediate communication that the exchange of thought and idea is almost as quick and almost as subtle as mind reading. Steamship lines run from port to port with the regularity of a river-ferry service. The nations of the world are brought into closer contact; the products of each zone are exchanged in every other zone; the wants of the Oriental are supplied from the mills and factories of Europe and America, and in exchange the Caucasian seeks the wealth of Cathay. China is carved into spheres of influence by European nations; Africa is parcelled out into European provinces. Every great power, including even the United States, has now its colony or province or annexed territory in the tropics or in the opposite hemisphere. Raw material is with ease brought from one quarter of the globe to another and returning ships take back the manufactured article. Trade is no longer merely local. The market, to-day, for every factory and every mill, is the world. Two generations ago it was confined to a locality that was circumscribed by the circle whose radius was the stage route. Great are the opportunities and possibilities of the age,—great, amazingly, enormously great is the value of the commerce and manufactures of to-day. Yet before us and ahead of us is the commerce and the stimulated production and the incalculable riches that will come when China, India, the Philippines, and the other countries of the Orient, with their hundreds of millions of inhabitants and their wealth of resources, shall have become consumers of the comforts of civilization and producers of its material needs. If great business organizations have been necessary in the past to

accomplish economical production and to create and distribute wealth among the nations, shall we not need, in the future, even greater organizations? "Canst thou pull out Leviathan with a hook?"

Industrial history is the record of industrial combination. Two centuries ago the business of manufacturing and the business of commerce were all done by individuals; but business was conducted within the smallest and most circumscribed limits. The product was small; labor was manual, or, if mechanical, it was rudimentary in its simplicity. The market was local; cost of production was great and prices were high. Inventive genius gradually produced new machines; the power of steam was applied to their propulsion. But machines could be used advantageously and profitably only by a division of labor and by individual specialization. This necessitated bringing together into one enterprise large numbers of wage-earners. The total expense of carrying on a business became so great that individuals singly and alone could not assume it, but two or more individuals by uniting their capital and skill made it possible for larger business enterprises to be conducted, and the partnership became the form of industrial combination. Naturally only a few persons could advantageously be embraced in any one partnership. It was not a good means of combining or concentrating very large amounts of capital. As machinery became more complex, as it became necessary more and more to subdivide labor and to specialize, and to bring together into one factory or mill an increasingly larger number of laborers to produce, and to organize into one force a larger number of persons to sell and market, it became necessary to enlist the capital of so many persons that not all of them could have actual oversight and management. An industrial organization in which the capital of many could be com-

bined, but in which the liability of those not in actual control could be limited, was the natural result of these conditions and the corporation soon became the usual form of combination in business enterprises. To-day the corporate form is rapidly displacing the individual and the partnership. Individualism in business,—absolute individualism,—that individualism which produces by the toil of any one man everything which that one needs,—exists only in the state of lowest savagery, if even there. It is equally true that individualistic production, in the broader but more usual sense of production by persons unassociated in corporate form, is becoming rarer and rarer. Not only is the business of the world done by corporations, but the corporations are daily consolidating and combining. Capitalization is becoming larger and larger. Millions and hundreds of millions of dollars of capital are brought together in one centralized organization; thousands and tens of thousands of men are subject to one management. The year 1898 saw over $900,000,000 concentrated in mighty industrial combinations. The first two months of 1899 saw business corporations formed whose capitalization was $1,100,000,000. It did not continue throughout 1899 at that rate, but the month of March, 1900, has seen the formation of one single combination of the steel and allied industries in which Andrew Carnegie and his partners are interested, whose capitalization,—the capitalization of one corporation,—is $200,000,000, a sum that is not an excessive, but rather a modest capitalization of its earning capacity, which, in net profits, for the ensuing year is estimated at $40,000,000, or twenty per cent upon the capitalization.

The progress from individual to partnership ownership was slow and steady. The transition in no manner affected the social or political organization of the community; its

effects were almost wholly economic. In nearly all these cases there remained individual control and individual liability. The change from the partnership and individual to the corporate formation has been, from the start, criticised, resisted and opposed, but its advance has been rapid and continuous, and, notwithstanding many apparent evils, beneficent. The past thirty years have seen corporations grow and increase greatly in size. But the tendency for great corporations to merge into still greater corporations *until nearly all the productive forces in any one industry have been amalgamated into one great body* has been a comparatively recent movement and has come with suddenness and without preparation. In a list of trusts and combinations appearing in an article by Byron W. Holt in *The Review of Reviews* for June, 1899, there are contained about one hundred and twenty corporations, the capital of none of which is less than ten millions. About one half of these were formed in 1899. There are comparatively few in the whole list that have been formed more than five years; and of these the majority have been reformed and reorganized within that period. In 1899, *The Journal of Commerce* in its year-book published a list of three hundred and fifty-three trusts and combinations in existence in March of that year. These trusts were then capitalized as follows: common stock, $4,247,918,921; preferred, $870,575,260; bonded indebtedness, $714,388,661; total, $5,832,882,842, or an average of nearly $17,000,000 for all of the three hundred and fifty-three combinations. These, it is to be borne in mind, are nearly all corporate combinations. In them are included only a very few of the combinations which are merely agreements to raise prices, to control production, to adopt rules to regulate trade, or to enable members to protect themselves from encroachments upon their business. An eminent authority has stated that

it is probable that of great incorporations which would popularly be called trusts, there were by July 1, 1899, more than five hundred in the United States, with an aggregate nominal capitalization of from six to eight billions of dollars ($6,000,000,000 to $8,000,000,000); and besides these there were about five hundred combinations and pools which were not corporate in form. We here give a list of the most important industrial corporations existing July 1, 1899, with the amount of their capitalization, bonded indebtedness, date of formation, and place of incorporation. Only those having a total capitalization of at least ten millions of dollars are mentioned. (For list see pages 8–13.)

More and more does the tendency for industries to combine into great corporations manifest itself. Our list shows those in existence July 1, 1899, but during that year, according to *The Commercial and Financial Chronicle*, there were formed corporations having a total capitalization of $3,512,280,000, made up as follows: common $2,285,555,000, preferred $899,775,000, bonded indebtedness $326,950,000. One thousand millions of this were probably included in the list of *The Journal of Commerce* above mentioned as brought down to March, 1899. If so, the balance or $2,512,280,000 should be added to the $5,832,882,842, in order to bring the list down to January 1, 1900, making the total about $8,350,000,000 at that time. As already mentioned, the present year 1900 has, in March, seen the incorporation of the Carnegie Company,—one corporation, at $200,000,000.

Quite equal to the aggregate of all the wealth that is represented by the capitalization of these gigantic industrial corporations, is that which is combined or pooled by virtue of mutual agreements, sometimes written, sometimes verbally expressed, and sometimes only implied. Such are the combinations of the anthracite coal miners,

Present Name of Trust.	When First Formed.	If Re-formed, when.	Where Incor-porated.	Present Capitalisation. Common Stock	Preferred Stock.	Bonded Indebtedness.
FOOD PRODUCTS.						
American Beet Sugar Co	1899	.....	.....	$15,000,000	$4,000,000	.....
American Fisheries Co. (menhaden oil)	1898	.....	N. J.	8,000,000	2,000,000	.....
American Ice Co	1899	.....	Maine	60,000,000	.....	.....
American Sugar Refining Co	1887	1891	N. J.	36,968,000	36,968,000	.....
Consolidated Ice Co	1895	.....	Maine	6,500,000	3,500,000	$1,255,000
Glucose Sugar Refining Co	1897	.....	N. J.	24,027,300	12,619,000	.....
National Biscuit Co	1898	.....	N. J.	29,200,000	23,200,000	1,729,000
National Salt Co	1889	1895	N. J.	7,000,000	5,000,000	.....
National Starch Manufacturing Co.	1890	1898	Ky.	4,450,700	4,066,200	3,089,000
Royal Baking Powder Co	1899	.....	N. J.	10,000,000	10,000,000	.....
Sperry Flour Co. (California)	1892	.....	Cal.	10,000,000	.....	.....
United Fruit Co	1899	.....	N. J.	20,000,000	.....	.....
United States Flour Milling Co	.....	.....	.....	35,000,000	5,000,000	75,000,000
Swift & Co. (beef)	1885	.....	Ill.	15,000,000	.....	2,500,000
DISTILLING AND BREWING.						
American Malting Co	1897	.....	N. J.	14,500,000	14,440,000	.....
American Spirits Manufacturing Co.	1887	1895	N. Y.	27,864,300	6,966,000	2,105,000
Boston Breweries Co	.....	.....	.....	4,000,000	7,500,000	7,500,000
California Wine-makers' Corporation	1894	.....	Cal.	10,000,000	.....	.....
City of Chicago Brewing and Malting Co.*	1891	.....	.....	£625,000	£625,000	£3,166,000
Cleveland and Sandusky Brewing Co.	1898	.....	.....	$3,000,000	$3,000,000	$6,000,000
Kentucky Distilleries and Warehouse Co.	1899	.....	N. J.	18,500,000	10,500,000	.....
Maryland Brew Co	1898	.....	.....	3,200,000	3,250,000	7,500,000
Milwaukee and Chicago Breweries Co.*	1894?	.....	.....	£775,000	£775,000	£3,500,000

* English and American companies.

Present Name of Trust.	When First Formed.	If Re-formed, when.	Where Incor-porated.	Present Capitalization. Common Stock	Preferred Stock.	Bonded Indebtedness.
DISTILLING AND BREWING.—*Continued.*						
Pittsburg Brewing Co	1899	.....	.....	$6,500,000	$6,500,000	$6,500,000
San Francisco Breweries, Limited	.....	.....	.....	20,000,000	.....	.....
Standard Distilling and Distributing Co.	1898	.....	N. J.	16,000,000	8,000,000	.....
TOBACCO.						
American Tobacco Co.	1890	.....	N. J.	33,500,000	14,000,000	3,580,000
Atlantic Snuff Co	1898	.....	N. J.	2,000,000	8,000,000	.....
Continental Tobacco Co	1898	.....	N. J.	43,845,000	43,845,000	.....
Havana Commercial Co	1899	.....	N. J.	10,000,000	6,000,000	.....
Union Tobacco Co	1898	.....	N. Y.	12,000,000	7,350,000	32,850
PAPER.						
American Writing Paper Co. (forming)	.....	.....	.....	12,500,000	12,500,000	17,000,000
International Paper Co	1898	.....	.....	17,442,000	22,539,700	8,947,000
Manufacturers' Paper Co. of Chicago	1898	.....	.....	10,000,000	.....	.....
National Wall Paper Co	1879	1899	.....	27,931,500	7,500,000	.....
Union Bag and Paper Co	1899	.....	N. J.	16,000,000	11,000,000	.....
Writing Paper Trust	1899	.....	.....	40,000,000	.....	.....
TEXTILE INDUSTRIES.						
American Silk Manufacturing Co.	1899	.....	Conn.	7,500,000	5,000,000	.....
American Thread Co	1898	.....	N. J.	6,000,000	6,000,000	6,000,000
American Woolen Co	1899	.....	.....	80,000,000	20,000,000	.....
Cotton Yarn Co. (forming)	.....	.....	.....	80,000,000	.....	.....
National Carpet Co. (forming)	1899	.....	.....	25,000,000	25,000,000	.....

Present Name of Trust.	When First Formed.	If Re-formed, when.	Where Incor-porated.	Present Capitalization. Common Stock	Preferred Stock.	Bonded Indebtedness.
TEXTILE INDUSTRIES.—*Continued.*						
Standard Rope and Twine Co.....	1896	.....	N. J.	$12,000,000	.....	$10,412,000
LEATHER AND RUBBER.						
Amer. Hide and Leather Co. (forming)...	1899	.....	N. J.	35,000,000	$25,000,000	.....
Rubber Goods Manufacturers' Co.....	1899	.....	N. J.	25,000,000	25,000,000	.....
United Shoe Machinery Co.....	1899	.....	N. J.	8,625,000	8,625,000	.....
United States Leather Co.....	1893	.....	N. J.	62,854,600	62,354,600	5,280,000
United States Rubber Co.....	1892	.....	N. J.	23,666,000	23,525,000	5,000,000
WOOD PRODUCTS.						
American School Furniture Co.....	1892	.....	.....	10,000,000	.....	1,500,000
Central Lumber Co. of California.....	1896	.....	.....	70,000,000	.....	.....
North Carolina Pine Timber Association.	.....	.....	.....	20,000,000	.....	.....
GLASS AND CLAY INDUSTRIES.						
American Window Glass Co.....	1890	1897	N. J.	30,000,000	.....	.....
American Brick Co.....	1899	.....	N. J.	4,000,000	6,000,000	.....
Federal Sewer Pipe Co.....	1899	.....	Del.	10,750,000	10,750,000	.....
Pittsburg Plate Glass Co.....	1891	1895	.....	9,850,000	150,000	.....
Window Glass Combine.....	.....	.....	.....	30,000,000	.....	.....
CHEMICALS, OILS, PAINTS, ETC.						
American Agricultural Co. (fertilizers)...	1899	.....	Conn.	20,000,000	20,000,000	.....
American Alkali Co.....	1899	.....	N. J.	24,000,000	6,000,000	.....
American Cotton Oil Co.....	1883	1889	N. J.	20,327,100	10,198,600	# 3,068,000

Present Name of Trust.	When First Formed.	If Re-formed, when.	Where Incor-porated.	Present Capitalization. Common Stock	Preferred Stock.	Bonded Indebtedness.
CHEMICALS, OILS, PAINTS, ETC.—*Cont'd.*						
American Linseed Oil Co	1887	1898	N. J.	$14,250,000	$14,250,000	.....
Borax Consolidated, Limited	1899	.....	.....	£600,000	£800,000	£1,000,000
Chemical Co	1890	.....	.....	$50,000,000	.....	.....
Standard Oil Co	1872	1882	.....	97,250,000	.....	.....
United Lighting and Heating Co	1899	.....	N. J.	6,000,000	$6,000,000	.....
United States Dyewood and Extract Co.	1899	.....	N. J.	4,000,000	6,000,000	.....
United States Glue Co	1899	.....	N. J.	20,000,000	15,000,000	.....
United States Varnish Co	1899	.....	N. J.	18,000,000	18,000,000	.....
IRON AND STEEL PRODUCTS.						
American Shipbuilding Co	1899	.....	N. J.	10,000,000	10,000,000	.....
American Steel and Wire Co	1898	1899	N. J.	47,100,000	38,150,000	$730,000
American Steel Hoop Co	1899	.....	N. J.	14,000,000	19,000,000	.....
American Tin Plate Co	1898	.....	N. J.	28,000,000	18,000,000	.....
Bethlehem Steel Co	1899	.....	Penn.	15,000,000	.....	.....
Cambria Steel Co	1898	.....	Penn.	16,000,000	.....	2,000,000
Colorado Fuel and Iron	1892	.....	Colo.	11,000,000	2,000,000	7,857,000
Consolidated Steel Car Co	1899	.....	N. J.	10,000,000	8,000,000	.....
Federal Steel Co	1898	.....	N. J.	46,484,000	52,767,600	28,334,000
National Steel Co	1899	.....	N. J.	32,000,000	26,000,000	.....
Republic Iron and Steel Co	1899	.....	.....	30,000,000	25,000,000	.....
Tennessee Coal, Iron & Railroad Co	1887	.....	.....	20,000,000	1,000,000	9,700,000
Steel Steamers	1899	.....	.....	15,000,000	15,000,000	.....
Union Steel and Chain Co. (forming)	1899	.....	.....	30,000,000	30,000,000	.....
United States Cast-iron Pipe and Foundry	1899	.....	N. J.	12,000,000	12,000,000	.....

Present Name of Trust.	When First Formed.	If Re-formed, when.	Where Incor-porated.	Present Capitalization. Common Stock	Preferred Stock.	Bonded Indebtedness.
IRON AND STEEL PRODUCTS.—*Cont'd.*						
Virginia Iron, Coal and Coke Co.....	1899	.....	.....	$7,500,000	.....	$7,500,000
Lake Superior Consolidated Iron Mines..	1893	.....	.....	28,722,000	.....	Canc'd '98
National Tube Co.....	1899	.....	N. J.	35,000,000	$30,000,000	.....
MACHINERY AND HARDWARE.						
American Bicycle Co.....	1899	.....	N. J.	35,000,000	45,000,000	.....
American Car and Foundry Co.....	1899	.....	N. J.	27,600,000	27,600,000	.....
American Machine Co. (sewing).....	1895	.....	Ohio	10,000,000	.....	.....
International Steam Pump Co.....	1899	.....	N. J.	15,000,000	12,500,000	.....
National Screw Co.....	1899	.....	.....	10,000,000	.....	.....
Otis (passenger) Elevator Co.....	1898	.....	N. J.	6,000,000	4,000,000	.....
Union Typewriter Co.....	1893	.....	N. J.	10,000,000	8,015,000	.....
United Shoe Machinery Co.....	1899	.....	N. J.	8,625,000	8,625,000	.....
ELECTRICAL MANUFACTURES.						
American Electric Heating Corporation..	1893	.....	.....	10,000,000	.....	500,000
Amer. Gas & Electric Lighting Fixture Co.	1899	.....	.....	9,000,000	6,000,000	.....
Columbian Elec. Car Ltg. and Brake Co..	1899	.....	N. J.	10,000,000	.....	.....
Electric Boat Co.....	1899	.....	N. J.	5,000,000	5,000,000	.....
Electric Storage Battery Co.....	1888	.....	N. J.	13,000, 00	5,000,000	450,000
General Chemical Co.....	1899	.....	N. Y.	12,500,000	12,500,000	.....
General Electric.....	1892	1898	N. Y.	18,276,000	2,557,200	5,710,000
National Carbon Co.....	1898	.....	N. J.	5,500,000	4,500,000	.....
N. Eng. Elec. Vehicle & Transportation Co.	1899	.....	N. J.	25,000,000	.....	.....
Westinghouse Elec. & Manufacturing Co.	1872	1891	Penn.	8,987,950	3,996,000	3,500,000

Present Name of Trust.	When First Formed.	If Re-formed, when.	Where Incor-porated.	Present Capitalization. Common Stock	Preferred Stock.	Bonded Indebtedness.
ELECTRICAL MANUFACTURES.—*Cont'd.*						
Illinois Electric Vehicle Co	1899	.....	N. J.	$25,000,000	.....	.....
MINERALS, METALS, METAL PRODUCTS, AND COAL.						
American Brass Co	1899	.....	Conn.	20,000,000	.....	.....
American Smelting and Refining Co	1899	.....	N. J.	27,000,000	$27,000,000	.....
Anaconda Copper Mining Co	1891	1895	Mont.	30,000,000	.....	.....
Granite Ware Trust	1899	.....	.....	20,000,000	.....	.....
International Silver Co	1898	.....	N. J.	9,896,000	5,000,000	$3,900,000
National Lead Co	.....	1891	N. J.	14,905,400	14,904,000	12,608
PRINTING.						
American Lithograph Co	1891	1892	N. J.	3,000,000	3,500,000	.....
TERMINAL MONOPOLIES.						
Brooklyn Wharf and Warehouse Co	1895	.....	N. Y.	5,000,000	7,500,000	17,500,000
Western Elevator Association	1887?	1897	.....	15,000,000	.....	.....
MISCELLANEOUS.						
Compressed Air Capsule Co	1899	.....	.....	13,500,000	1,500,000	.....
Continental Cement Co	1899	.....	N. J.	5,000,000	5,000,000	.....
Diamond Match Co	1889	.....	Ill. & Eng.	11,000,000	.....	.....
International Cement Co. (forming)	1899	.....	N. J.	25,000,000	25,000,000	.....
International Smokeless Powder and Dynamite Co	.....	.....	.....	9,000,000	1,000,000	.....
Marsden Co. of Philadelphia	1897	.....	.....	30,752,200	1,515,000	.....
National Enameling and Stamping Co	1899	.....	N. J.	20,000,000	10,000,000	.....

the pools of the insurance companies, and the greatest of all pools, those of the great freight and passenger associations whose purpose is merely to fix rates. Other examples of combinations that are not incorporated are the organization long maintained by the steel rail manufacturers; the agreement or unison between Armour, Swift, Morris, and Hammond,—the "Big Four,"—in the meat business; and countless associations of merchants, both wholesale and retail. The extent to which industry is under the control of corporations of enormous capitalization or of individuals or corporations acting in combination, can be best appreciated not so much by attempting to count the number of such corporations or combinations as by considering our various wants and needs, the commodities and products that we use, and inquiring how many of them there are, the production and distribution of which are, either wholly or to a very great extent, under the control of such corporations and combinations. There is hardly anything (excepting vegetables, fruits and a few other agricultural products) which we eat or drink or wear or use or enjoy that is not largely controlled either in its production or distribution by great corporations or else by combinations of individual competitors. The service of supplying those of us who live in cities and large villages with many of our absolute necessities is necessarily almost a monopolistic privilege. Our water and our means of illumination, our gas and our electricity, are all supplied by corporations of great capital and generally without competitors, except in those cases in which the municipality itself has assumed the monopoly. The price of nearly everything we use is largely affected by the cost of transportation, and the means of transportation are in the hands of great corporations. But aside from these things which are inseparably connected with public service, the

rendering of which is naturally monopolistic, we find that all or nearly all of the material comforts of life are now supplied to us by industrial organizations and combinations of vast capitalization. Look at the list of articles made or sold by these corporations: fertilizers, alkali, beet sugar, brick, brass, bicycles, railroad cars, cotton oil, electric-heating apparatus, fish (packed), window-glass, gas and electric lighting fixtures, hides and leather, ice, linseed oil, lithograph productions, sewing machines, malt, school furniture, ships, silk thread, whisky, wire, steel-hoops, sugar (cane sugar), thread, tin-plate, tobacco, woolen goods, writing paper, copper, snuff, bolts and nuts, borax, steel, lumber, pharmaceutical products, beer and ale (there being combinations of breweries in the following cities: Chicago, San Francisco, Pittsburgh, Boston, Cleveland and Sandusky, Baltimore; also Milwaukee and Chicago); coal and iron (industries of Colorado, also of Tennessee), electric-car lighting apparatus, steel cars, cement, plug tobacco, cotton yarn, matches, electric boats, electric storage batteries, sewer pipe, chemicals, general electrical apparatus, glucose sugar, granite ware, Cuban tobacco, paper (news and printing), silver plate, smokeless powder and dynamite, steam pumps, "Bourbon" whisky (Kentucky distilleries), iron (Lake Superior mines), cellulose, biscuits, crackers and bread-stuffs, carbon, carpets, enameling and stamping, white lead, salt, screws, starch, tubes, wall-paper, pine timber, passenger elevators, plate-glass, print cloth, iron and steel, baking powder, rubber goods, coal, window-sashes and doors, flour, petroleum and its by-products, whisky, rope and twine, steel beams, steel rails, beef, coal and iron, paper bags, typewriters, fruit, shoe machinery, cast-iron pipe, dye-wood, flour, glue, leather, rubber boots and shoes, varnish, writing paper, etc. All the articles just men-

tioned are made by corporations none of which are capitalized for less than $10,000,000.

Even more important than the amount of the capitalization are certain facts showing the extent of the control over the various industries by these corporations and the number of smaller concerns that have been amalgamated into them. Thus the Kentucky Distilleries Co. embraces fifty-seven distilling plants; the Union Typewriter Co. is a combination of the five leading typewriter manufacturing companies; the American Agricultural Co. is to embrace twenty-three fertilizing plants; the National Wall Paper Co. was formed for the purpose of consolidating thirty concerns formerly competing with each other; the Otis Elevator Co. embraces thirteen concerns and turns out eighty-five per cent of the passenger elevators made; the American Brick Co. controls the market in New York City; the Atlantic Snuff Co. embraces all but two of the snuff factories of the country; the American Tin Plate Co. is a consolidation of about forty plants and two hundred and ninety mills; the American Cotton Oil Co. is a union of one hundred and twenty-three properties; the National Biscuit Co. includes ninety per cent of all the large bakeries in the United States; the National Starch Co. is a consolidation of about twenty companies; the American Linseed Oil Co. owns eighty-two plants or eighty-five per cent of all those in the United States; the Writing Paper Trust was projected as a consolidation of thirty-five mills in the Connecticut Valley; the National Carbon Co. includes all the American companies in this industry and a majority of all in the world; the Consolidated Ice Co. embraces ten or twelve companies in New York and Maine, while to ensure absolute control the American Ice Co. was formed. It has absorbed the Consolidated and the Knickerbocker and has for this year a practical monopoly in

New York City, owning the available supply of ice and all the refrigerating plants, and having contracts to take the surplus ice made by all the breweries and other private ice plants, besides possessing almost exclusive docking privileges. The assets of the company are shown by the following clipping from *The New York Herald:*

Mr. Shearn first introduced in evidence the charters of the Consolidated and Knickerbocker Ice companies and of the American Ice Company, showing the directors of the last named. A statement showed that the American Ice Company owned 29,337 shares of the preferred and 59,981 shares of the common stock of the Consolidated Company, and 55,768 of the common and 37,952 shares of the preferred stock of the Knickerbocker Ice Company. [The stock of each of the last two companies consisted of 100,000 shares.] William McClure, Secretary of the New York Stock Exchange, produced the statement of Secretary Scott to the Exchange. It shows that the American Ice Company owns 118 ice-houses, 32 factories, and 112 bridges. It leases for a long term of years twenty-six ice-houses and twenty-one ice plants. It harvests ice on the upper Hudson, Lake Nehagh, Lake Matooch, Croton Lake, at White Haven, Pa.; East Mahoney, Pa.; White Lake and Greenwood Lake, N. Y., and Lake Schonk. Ice is sold in New York, Brooklyn, Philadelphia, Camden and Atlantic City, N. J., Baltimore, Md., and Lakewood, N. J. The total output is 4,500,000 tons a year.

The American Malting Co. embraces thirty companies, nearly all in the United States; the Glucose Sugar Refining Co. controls all the refineries of that kind of sugar in the United States. A short time ago its president declared that it had no rival in operation. The International Silver Co. includes twenty-four companies, or seventy-five per cent of all in the United States; the National Steel Co. was formed to include about twenty companies; the Royal Baking Powder Co. was a consolidation of all the companies in that industry; the United States Rubber Co. is said to control the trade of the country in rubber boots and

rubber shoes; the United States Varnish Co. was projected to include all the concerns in that business in the United States, and likewise the United States Dyewood and Extract Co. started out to amalgamate all in that industry in the United States. Not one of the many corporations before mentioned is capitalized for less than $10,000,000; while scores of them are capitalized at from $40,000,000 to $200,000,000.

Great, indeed, are these industrial combinations. Multitudes, whose numbers exceed the population of many countries, are dependent upon them for their supply of the commodities and necessities of life. Their employees, dependent upon them for a living, outnumber the armies of the mightiest sovereigns. Their capitalization rivals the wealth of nations; their incomes surpass the revenues of states. Their power is centralized; it is sometimes regarded as irresponsible. The rights of the community and of employees and even of the small shareholders, the minority, are more or less ill-defined, and not infrequently are entirely disregarded.

Are these mighty institutions a menace to industrial progress and to human liberty? Can they, by acquiring the means of production and the agencies of distribution, tax the world at their own selfish wills for its food and drink and clothing and the thousands of comforts which have become the necessities of civilization? Can they extort from us what they will, or even take more than they fairly ought, as a price for the things we must have? Can they, by absorbing or crushing out all other producers, become the sole employer of labor with power to decrease wages at will? Can they become the sole buyer of all our raw materials, and offering the only market, lower the price to what they are willing to pay? Can they, by gathering into their hands all of the things, or all of any one thing which

we need, make us industrial slaves, and then deprive us of all other liberties? Can they pre-empt the fields of industry, and deny to all others the power to work for a living, to acquire wealth, and to achieve success in business? Can they close the "open door" of opportunity?

The very large is always terrifying at first, but it is the unknown that fills us with greatest fear. When we become acquainted with the vast or profound it no longer frightens us. Let us, then, filled with hope that industrial combinations may not be liberty-crushing, and yet moved with courage to combat them if we find them threatening us, study them to ascertain their causes, their methods, their benefits, their evils, their limitations. Other great things have in the past filled us with terror. We have tried to destroy them. Sometimes we have succeeded. At other times the forces were irresistible and we have tried regulation and control, only to find that the irresistible when controlled were beneficent. The benefactors of the world are they who have taught us how to make use of these controlled forces, these mighty elements. We owe something to the man who invented lightning-rods to ward off from us the lightning flash, but this debt is insignificant compared with that which we owe to the inventor of the telegraph, the telephone, the electric light, or the electric motor,—inventions that were the result of a control and regulation of a mighty force.

All forces may thus be used to advantage. The Creator did not turn them loose for no purpose. Universal tendencies are the results of great, though sometimes unseen, forces. These forces are to be utilized if possible. The movements of those forces,—the tendencies of the times,—*may be* the uncontrolled and unregulated, the harmful and wrongful, action of those forces; but, when these tendencies are progressive through all the ages, when their

manifestations in the past have been the accompaniments of civilization, we may, at least, have hope enough and confidence enough to attempt their careful study in order to see if they cannot be used instead of abused, utilized instead of neutralized, made creative and productive instead of destructive. No change is brought about that does not have attendant evils. The wise man, however, does not destroy the new thing. He accepts and uses it, avails himself of its advantages, and guards against its dangers. Can we do this with the great industrial organizations of the day?

CHAPTER II.

WHAT IS A TRUST?

MEN frequently get bad names. Sometimes they deserve them; sometimes not. Deserved or undeserved, it is hard to get rid of them. "The best thing," says a well-known American humorist, "that could happen to some people would be to lose their reputations; perhaps they could find better ones." Words, like people, sometimes get bad names undeservedly. They are given meanings that suggest the vicious, the bad, or the tyrannical, when perhaps their true meaning is foreign to all these qualities. "Trust" is such a word. It pertains primarily to one of the noblest of human faculties, but to-day it has an application to industrial affairs that makes it to many, suggestive only of an enormity,—a gigantic, merciless, oppressive, price-raising, production-strangling, wage-reducing, business organization. Not only has the word "trust" been thus perverted from its original meaning, but, in the popular use of it as a legal term, it is to-day a misnomer.

The first combinations called "trusts" were properly designated by that term. The earliest of them was the Standard Oil Trust, which, as a trust, was formally organized in 1882. This was a trust in the correct legal sense of the word. The several firms and corporations which sought to combine their interests did not merge them into one corporation nor sell them all to any one individual or set of individuals. On the contrary, the several proper-

ties, whether corporate or individual, remained in equity distinct, but they were all transferred in trust to a certain few persons as trustees to manage them in the interests of the several owners. The values of the respective properties were ascertained, and the trustees issued trustees' certificates to the owners for their respective proportionate shares in the aggregate of the property turned over to the trustees. In some cases all the stock of the corporations was transferred to the trustees; in others only a majority of the shares; but whatever the extent of the interest, enough of it was turned over to the trustees to give them control of the several properties. There was one management, one policy, and one great combination, so far as production or marketing, price-making or profit-sharing, was concerned. Still the beneficial title to all these properties remained in their several owners. The different subsidiary corporations were still distinct. The combination was, strictly speaking, a "trust." The Standard Oil Trust was a marvelous success; at least, for those interested in it. It soon had imitators. The Cotton Oil Trust was established in 1883, and about a half dozen other genuine trusts of prominence were created. Among them was the Sugar Refineries Co., better known as the Sugar Trust, which in 1891 was reorganized as a corporation and became known as The American Sugar Refining Co.

These arrangements—for they were arrangements rather than institutions—have passed away. They did not die "aborning"; on the contrary, they were lusty, strong and powerful, but nevertheless they were short-lived. The cry of "monopoly!" was raised. Courts, legislatures, and people all laid on them a more or less heavy hand. There seems to be little doubt that they were contrary to the unwritten common law which determines so many of our rights. Their existence was frequently declared as being against

public policy. The masses thought that at every opportunity the trusts, Ishmael-like, raised their hands against every man and oppressed and extorted. Ishmael-like, the trusts found every man's hand raised against them. Contracts in restraint of trade, contracts whose purpose is to kill all competition, contracts to raise prices arbitrarily or to limit production arbitrarily so that prices as a result will be raised, have from time immemorial been considered by our English common law, independently of statute, as against public policy, as therefore null and void between the parties to them, and as giving neither of the parties any rights thereunder or any remedy for injuries that he may sustain by the other's breach of the contract. This is a fair summary of the general state of the law on this point, although not infrequently judges have laid down the rule that only contracts *unreasonably* restraining trade or *unreasonably* preventing competition were thus null and void and unenforceable. Popular fear of these combinations in many states has enacted, in recent years, special statutes making such contracts not only unenforceable and null and void between the parties, but making them criminal, and prescribing fines and imprisonment for those who are parties to them. Thus the condition of the trusts was more or less precarious. Even if they succeeded in the suits brought against them, they were almost sure to be harassed by suits; and litigation is expensive even for millionaires and trusts. To-day there is probably not a trust of any importance in existence. They are gone like the buffalo and the Indian. Perhaps they fled from fear like the buffalo, but more likely, like the Indian, they gave place to something that was (from the producer's standpoint) better.

Not only were the genuine trusts of doubtful legality, they were not of perfect efficiency. They were combina-

tions which were liable to be disintegrated independently of decrees of dissolution made by courts in suits brought against them. They were temporary; they were tentative. The great producers who had experienced the benefits of a concentration of effort, capital, ability, and experience, saw a way of more permanently and more securely obtaining these benefits by means whose legality was less questionable; namely, by the great corporation,—the corporation which should buy out, merge, or consolidate all the others engaged in the industry,—the corporation of corporations. Sometimes the great merging corporation bought the stock of the several smaller corporations. The smaller corporation then continued in existence, but its stock was held not by individuals but by the great consolidating corporation. Yet since many states did not permit one corporation to buy the stock of another, more frequently the new corporation bought not the stock of the others but their property. The affairs of the little corporations were wound up. Instead of many concerns being conveyed in trust to be managed by trustees for the common benefit of many owners who still had a beneficial title to their separate and distinct properties, we have in the case of a consolidated corporation one great concern, owned absolutely by its shareholders, which has bought up all the title, legal as well as equitable, of the several concerns which compose it. It may have as its shareholders the very same persons who owned the several distinct plants it has bought out; possibly their interests in the new corporation may be in exactly the same proportion that the value of their respective properties bore to the aggregate value of all the merged properties. Several of the trusts have reorganized as corporations, and the holders of the trustees' certificates have exchanged them for certificates of stock, dollar for dollar; still the general effect of legal

decisions is that the new corporation is not in law a combination of separate interests; and that the parties who have sold their interests to the new corporation, even though they take stock in it, have not made a contract in restraint of trade. As a matter of fact they act together more harmoniously and unitedly than they did before; but in a corporation the individuals are no longer considered as acting; the corporation is said to act,—not its members. Most of the great industrial combinations of the day are corporations. None of them are trusts proper. We still call them "trusts," but they are a different means of accomplishing the same purpose. A great corporation which buys out the properties of other corporations, even though it does so for the purpose of stopping competition which has been rife among them, is no more a trust, in the correct sense of the word, than a leech is a lancet. Years ago the leech was used to bleed sick patients; nowadays the instrument for that purpose is the lancet. A few years ago the trust was one of the means of stopping undue competition, of obtaining for the producer some of the benefits of combination, of practicing, in not a few cases, some of the extortions of centralized power, and of bleeding the community. To-day the most common means employed for this end is the great corporation.

The difference between the genuine trust and the consolidated corporation is more than a difference of name. The one word is not strictly the synonym for the other. They are not the same thing. They may have many purposes in common, affect the same persons and interests, and effect similar results; but they are different in their creation and different in their rights and liabilities before the law. Economically and industrially they may be to a great extent the same thing; legally they are different. Decisions of the court applicable to the one have, at the

most, only a modified application to the other. Statutes that condemn the one do not necessarily concern the other. It is far more than a quibble to say that trusts proper differ from great consolidated corporations. The perception of this fact is absolutely necessary to a right understanding of the problem which industrial combinations involve, and to any successful attempt to solve it.

It is, however, by no means to be inferred that all industrial combinations to-day are corporations, notwithstanding the popularity of that form of organization. Scarcely any of them are trusts in the strict legal sense. There are combinations innumerable—many of them gigantic and powerful—which are neither trusts proper nor corporations. They are representatives of earlier types of combinations. It has been conservatively estimated by careful students that there are at least five hundred pools and associations and combinations, not incorporated, whose field of operations is so extensive that from the standpoint of the consumer, who is apt to consider only their influence on prices, they are perhaps as effective, obnoxious, and injurious as the greatest consolidated corporations may become. Besides these great ones an infinite number of small ones exist. There is hardly a city in which those engaged in some one or more branches of business are not combined or pooled or associated. Physicians frequently have their regularly prescribed professional fees; the druggists, wholesalers and retailers, have associations innumerable that fix prices and terms of credit. This is equally true of the wholesalers in most lines and of many retailers.

These combinations, associations, and pools differ, however, from trusts proper and from great corporations not only legally, but economically and industrially. Many of these combinations, big and little, and especially the little ones in their limited fields, present the evils of trusts in

an aggravated manner in nearly every respect, and on the other hand offer few of the economic advantages to those interested directly in them, and present but few possibilities of good to the community. The underlying purpose of all these unincorporated pools and associations and combinations—in fact, it may fairly be said, the almost sole purpose is to eliminate competition and raise prices. This is also the chief purpose of trusts and corporations of all kinds. Legally, however, the combinations, to which reference is made, differ from the consolidated corporations in that the pools and associations and combinations leave each concern which is a party to them, separate and distinct; and the combinations are based upon agreements express or implied, made by individuals, while the corporations are new entities, creatures of the State, subject to control and regulation by the State. They differ from the trusts proper in that the several owners of the properties in combinations still retain the legal as well as beneficial ownership. Economically and industrially, "agreement" combinations differ from both the corporations and trusts proper in that there is still separate and distinct production and distribution. In many of them, very few, if any, of the economies of production and distribution, which result from combination, are attempted. This is true of those whose only aim is price fixing. In these there is still the maintenance of a number of separate plants, the same old expenses of salesmen, of advertising, and of distribution over the whole field from each and every point of production.

Sometimes, however, the associations go farther than merely to fix prices. They attempt to cut off some of these wastes occasioned by competition. Thus the enormous expense of soliciting a freight traffic which may, by such soliciting, be diverted from one railroad to another, but

which cannot be increased in aggregate amount, and which is sure to be eventually carried at a loss if the warfare of competition begins, caused railroads to form pools, and to agree on what amount of freight should be apportioned to the several lines constituting the pool, and to endeavor to send the freight in that way and in that proportion, and to pay each line its agreed share, even if the traffic did not follow the prescribed route. Rates were thus maintained and profits secured. The roads were able to make great savings in this way. The anthracite coal companies (for nearly the whole anthracite coal mining business is now in the control of seven railways which run through the territory where the mines are situated), to cite another example, have formed a pool, and each month they agree on selling prices, regulate and limit the production, determine the proportion to be mined by each company, establish or substantially determine prices to be maintained by the local dealers, and fix uniform rates of wages and regulations for mines. In these ways they make some savings, but the principal effect is to maintain prices.

Other combinations save some of the expense of competition by parcelling out the market so as to make it unnecessary for each one to maintain a separate establishment therein. Armour, Swift, Hammond, and Morris, the "Big Four" of the Chicago meat packers, are popularly supposed to have an understanding whereby they do not interfere with each other in certain localities and markets. The price to be paid for cattle or charged for meat by all of them is fixed each day, although there is no known express agreement and certainly no formal combination between them. But their "friendly agreement," their "understanding between gentlemen," or whatever it be, is able to exercise a most effective control on the cattle and meat industry of the whole continent. They conduct their

business individually, but act in unison in many matters. Independent butchers have been practically annihilated.

It is not known that either the anthracite coal pool or the "Big Four" in the meat business have any express agreement; but sometimes the understanding, or the resolutions of "combines," as to prices, production, and wages, are formulated in writing and made a written agreement. Not infrequently penalties are imposed, or an assessment upon each person is made and afterwards it is redistributed to those who do not violate the agreement. The agreements of most of the wholesalers' associations as to minimum prices to retailers are written ones; while the many combinations in the iron industry and among the manufacturers of steel rails have regularly imposed penalties, and the Standard Envelope Co. of Springfield, Mass., was an example of a combination which assessed the members according to the amount of their production and afterwards re-distributed the fund among those who strictly adhered to the agreement. Whether the agreements of these various combinations are written or expressed, invariably every effort is made to keep them secret. The public never acquires knowledge concerning them until some member violates the agreement, and the fact comes to light in the revelation that is sure to result. For years the insurance companies have had pools or agreements as to premiums; and combinations existed among the manufacturers of steel rails, nails, chemical products, and steel beams, long before the public was aware of the fact.

The three generic types of combinations, then, are: First, combinations, pools, and associations based simply upon agreements made by persons who still continue as individual owners, and which generally affect prices, but sometimes affect output and methods and scope of business;

second, trusts proper, in which the owners of the several properties transfer their respective interests to several persons in trust to manage them as one property for the common benefit of the several owners according to their proportionate interest; third, great corporations which absorb, amalgamate, and unify into one gigantic company various small concerns,—not infrequently nearly all of those engaged in one industry. Legally, each of these types of combination differ more or less in form and rights and liabilities from the others. Economically, the corporations and trusts proper form one group—that in which there is a unity of management and control—while the several business concerns which form mere "agreement" combinations continue more or less distinct industrially as well as legally. The different types are mentioned above in their chronological order. Of "agreement" combinations we even now have many, but there is probably no existing trust in the proper sense of the word. The corporation—the large corporation that absorbs all the old concerns that were formerly competitors—is the latest phase of combination. It is the form that is to-day most popular with those seeking to combine, not only because of its industrial advantages and its financial conveniences, but chiefly because it is doubtful if it is illegal, while trusts and combinations are. It is the form that is attracting the attention of the public, because of its enormous size; and it is universally regarded as presenting grave dangers to industry, to society, and to liberty.

Neither the great consolidated corporations nor the innumerable combinations based on agreements are trusts—using that term with legal strictness—much as the people may so style them. Still as "a rose by another name may smell as sweet" these consolidated corporations and the pools, associations, and other combinations may, and in fact

do, contain many elements that exist in the old but now discarded trusts. We name some things by their appearance, others by their purpose, others by their results, others because of their functions, still others because of similarity to things already named. Because of many similarities between the class of gigantic corporations which we have described, and trusts proper, and pools or "agreement combines," the word "trust" has become popularly applied to all three forms. There is no use in questioning the propriety of this use of the word. The thing that is important is to understand what is generally meant when the word is used, and also whether or not it is correctly used. A trust, then, as the word is popularly used, may be said to be any consolidation or combination or aggregation of a number of concerns in any particular line of business, which, prior to the combination, were naturally competitors. It is immaterial, in the popular sense of the word, whether the combination is the result of a mere agreement between independent owners, or is a corporation which absorbs them all, or is a union caused by a transfer in trust of several distinct properties. The essential point is the union, more or less formal, more or less permanent and close, of competitive producers, with the inevitable result of a cessation of competition *between them*, and usually with the further result that in a territory of greater or less extent no actual competition exists. Such is the popular use of the word "trust." But if we would intelligently ascertain the evils, and especially if we would adopt proper remedies, it is absolutely necessary that we bear in mind the distinctions, economical and industrial as well as legal, already made between the great corporations, trusts proper, and mere combinations based on agreements.

The trusts proper we may dismiss from consideration, because they have, as it were, dismissed themselves out of

sight. The experience of the courts and prosecuting officials with trusts proper was much like that occasioned by a certain border settler in Missouri who, during the Civil War, lived between the Confederate and the Union lines. When the former pushed forward to his home, and demanded to know his sympathies, his reply invariably was, "*I'm a 'Secesh.'*" When the Union lines were advanced, his statement of his position was always, "*I'm fer the Union.*" But once when the pickets of the two forces were both hot after him, his remarkable declaration was, "*I ain't nothin', and mighty little of that.*" When trusts were assailed in courts, and the case seemed about to go against them, the prosecuting officers always woke up to find that there was no trust. Before it could be caught and brought to justice "it was nothing." As a trust it had dissolved,—disintegrated, so to speak; but it always happened that the same persons, the same properties, and the same interests were soon seen in the form of a powerful corporation conducting the same enterprise. It was always a case of "the same old business at the same old stand;" no change, in reality, except a new sign.

But pools, associations, and "combines," based upon agreements, like Thomas Jefferson, "still survive." From the way they continue it even seems as if we are to have them, like the poor, always with us. They present one phase of the problem of industrial combination, one that not only must be studied in connection with the corporate phase, but also viewed separately; one that, perhaps, will require different treatment. It may be that any attempt to use the same remedy for the evils of corporate combinations and combinations based upon individual contracts or agreements, would be as foolish as to treat in the same way a blister on the foot and water on the brain.

The remedies heretofore tried for the evils of combina-

tions have so far resulted in an increasing number of them being re-organized as corporations. The problem of industrial combination, therefore, very frequently, if not usually, assumes the corporate phase.

The problem, then, is largely the corporation problem, but it is more—it is the *great* corporation, the consolidated and consolidating corporation, engaged not in discharging quasi-public functions (for such combinations as railroad, traction, telegraph, water, and gas companies, etc., should be distinguished from purely industrial organizations like trusts), but in those industries like manufacturing and trading which, with a certain degree of success, can be carried on by private individuals. Furthermore, the problem of industrial organizations is one not only of size, but of how that size is obtained; not only of shape, but of what kind of a shadow that shape is going to throw over industry. It is more than the question whether or not corporations shall have, as the limit of capitalization, $1,000,000 or $10,000,000 or $100,000,000. It is the question whether the corporation shall be allowed to buy out other corporations, to buy up all the productive means in any one line of business. It is a question whether, notwithstanding their gigantic size and enormous powers, these corporations are still subject to economic laws, whether they are affected by competition, and, if so, to what extent. We ask not only whether Cæsar has grown great, but "on what meat has this our Cæsar fed that he has grown so great," and above all we want to know whether the mighty industrial Cæsar is about to proclaim himself king and defy our rights. To apply a homely proverb, it is not merely a question whether we shall have big fish, but whether we shall let the big fish eat the little fish. It is well not to be deceived in this matter by mere size. A million dollars of capital combined in one industry may be very injurious

to the people; twenty millions may only secure the best and most economical productive means in another. The smaller sum may be sufficient to monopolize one branch of industry; the larger may not be able to control the major part of another industry. Thus, in 1899, there was a Federal Steel Co. owning many properties, and whose aggregate capitalization, including bonded indebtedness, was about $118,000,000; and there was being projected at that time the National Steel Co. to absorb about twenty plants, with a capital of $58,000,000; and further there was in existence the Republic Iron and Steel Co. with a capital of $55,000,000; and the Union Steel and Chain Co. was forming with a capital of $60,000,000; there were also the Bethlehem Steel Co., of Bethlehem, Pa., with a capital of $15,000,000, and the Cambria Steel Co., owning plants in five counties of Pennsylvania, capitalized at $10,000,000, besides several great corporations engaged in the iron business, and independent concerns of even more enormous capitalization engaged in the steel business. On the other hand it is unquestionable that many small industries have lately come completely under the control of corporations having capitalizations not a tenth or a hundredth part as large as those of some of these great steel-producing concerns.

CHAPTER III.

THE MOTHER OF TRUSTS.

WHEN Topsy, in Uncle Tom's Cabin, was asked about her parentage, she answered: "*I dunno, I 'specs I growed.*" We overlook the most important and the really basic and fundamental fact, in the investigation of trusts, if we fail to observe that, whatever else may have tended to bring them into being and to foster them after birth, at least some of them, like Topsy, "growed;" that they are largely an evolution in industrial progress, notwithstanding many of them may be mere excrescences. Whatever other things stimulate their growth, at least some of them are the children, the natural offspring, of the competition which, since man began to exchange with man, has unceasingly tended towards larger and larger organizations of industry—towards concentration, consolidation, combination, and cooperation.

Two things are ever to be borne in mind concerning trusts: first, that they are gigantic industrial organizations; second, that they are unions of producers who were formerly competitors. Whether or not they can wholly annihilate competition is the great question. Time alone can answer it; upon that answer depends the solution of the whole trust problem. But whether we view trusts as industrial organizations that are simply gigantic, or as combinations that have absorbed or will absorb all the productive agencies of any one industry and that have killed or

will kill competition in that industry, it is unquestionable that their origin is traceable to competition. Competition is, in a sense, the mother of trusts, despite the fact that Mr. Havemeyer of the Sugar Trust, has, in a moment of bitterness, charged that the tariff is the maternal parent of this brood of ill-repute, and notwithstanding the further fact that many, who have noticed the succor given to trusts by railroad discrimination, patent laws, and corporate and other special privileges, have mistaken wet-nurses of trusts for the real mother.

Competition between rival producers and distributers—plain, old-fashioned competition—tends to build up larger and larger enterprises, and ultimately to leave only one or, at most, a few great producers in the field. There are indeed exceptions to this rule—counter tendencies—but the proposition in the main is correct and will rarely, if ever, be questioned.

The purpose of factories and mills is to manufacture. The unceasing cry of the consumer is for cheaper commodities. The community, it is true, has other interests than money-making, than obtaining goods at low prices, than getting as much as possible in return for a little. Social and political questions complicate themselves with economic problems. Still, in considering an economic situation like that occasioned by trusts, the first question to be answered is: "How can the most of those commodities which gratify our desires be produced by the least expenditure of energy?" The question of distribution follows: "How can these things, when produced, be enjoyed by the persons who produced them, in proportion as they participated in the work of production?" In the final answer it will be found that the widest distribution means the largest production; the fullest production, in general, means the fairest distribution.

It is the rule rather than the exception that trusts produce more cheaply than the individual producers whom they displace, and therefore they can make the cost to the consumer less than their individual competitors can. The cost of an article to the consumer—its ordinary retail selling price—depends not only upon the expense of making, but of marketing it. The great industrial combinations cheapen their product not only by lessening the cost of making but infinitely more by saving expenses in marketing.

The best established fact in industrial history is that concentration of capital in productive industry has ever meant increased efficiency in producing wealth,—a cheapening of products. It is concentrated wealth that has made possible our great factories, our great railroads, and all the great industrial agencies which have done so much to create and cheapen wealth and to give to us the comforts and conveniences of modern civilized life. Those nations that have encouraged the concentration of capital are the most prosperous; while the greatest cheapening of products has been in the industries in which concentration is possible. The exhaustive study into prices made a few years ago by the U. S. Senate Committee showed that within a generation the prices of the most important manufactured articles (those produced in industries in which combination and centralization are practicable) had greatly decreased, but the prices of the products of agriculture (in which capital cannot be advantageously concentrated) had increased. The specialization of labor, the introduction of machinery, the combination of effort, the concentration and consolidation of capital, have always in the past been unmistakable signs of cheaper and more abundant production. These things came from the demand for cheaper commodities. They remained, for a time, because they served the

community better. They remained till displaced by greater specialization, newer machinery, further concentration, larger consolidations.

The demand for lower prices first led to the division of labor. Men ceased to endeavor to supply all their wants, because they found that by each one doing that for which he was best fitted they could produce a greater aggregate and an increasing variety, and by exchange each could get more things for the same expenditure of energy, that is, get them cheaper. The extreme specialization that we see to-day in professional, as well as industrial life, is but a further division of labor; and the end is not yet. The purpose of it, the result of it, is to produce at a less cost, to render services more cheaply. The division of labor made possible the invention of machinery, which is only another answer to the demand for cheaper commodities. But the greater the division of labor the more necessary it becomes that men should co-operate, and the adoption of machinery usually necessitates the bringing together of a large number of men into one enterprise. There are, it is true, exceptions to this rule. Invention is sometimes a centrifugal force. It is not always centripetal. It occasionally decentralizes rather than centralizes. Thus not infrequently machinery is invented that makes but a part of some article and that cannot be used profitably by each producer of the article, and the result is that a new industry springs up for the manufacture of this part. This tends to detach from the old business what may be called a branch of it, and to make two business industries where formerly there was but one. But usually concentration of capital is required to purchase new machinery that is invented, and the concentration of more capital is required to run it profitably. A little capital with machinery, like a little learning, "is a dangerous thing," but machinery with sufficient capital has

always meant cheaper production than was possible by the means that it displaced. The more complex and intricate that machinery is, the greater is the division and subdivision of labor. Few men now make shoes, but thousands of men cut uppers, other thousands make heels for shoes, other thousands peg the soles. The greater the subdivision of labor, the more the necessity of co-operation and *generally, although not always,* the greater the necessity that a larger number of men be brought together in one enterprise. This means greater concentration of capital, larger combination of industry.

A more abundant and cheaper product has been the general result of all past industrial combination. This has been the uniform course of industrial history. Capital has combined because the demands of business seemed to necessitate it. It did not combine for the fun of the thing. It stayed combined as long as business by yielding profits made it advantageous so to do. Every labor-saving machine and every invention and improvement has required new capital, and the important inventions have required the capital of many persons in union; but the product has been cheapened. It not only has cost less, but it has sold for less. From the moment in industrial history when men began to exchange their products, the movement towards concentration of effort and combination of capital has been progressive. The advance has been in a geometrical ratio. It is due to that instinct in human nature which lies at the foundation of economics which is the basic principle of exchange, namely, to get as much as possible in return for as little as possible. It is due to the fact that big producers are generally cheap producers.

Not only does industrial history show that great business organizations have been cheap producers, but in the very nature of things the cheap is the big, the cheapest is sure

eventually to become the biggest, and the biggest has a tendency to become and to continue the cheapest. Every one wants to get goods cheap. The person or organization of persons who will sell most cheaply will be the one patronized. He who sells most cheaply, sells the most; he naturally tends to become the biggest trader. He who cannot sell as cheaply as his competitors is bound, in time, to lose his trade and to be forced out of business, unless he discovers some new way of cheapening his wares. If he is forced out of business, the usual result is that the big competitor, who is generally the cheap seller, gets his trade and becomes a bigger competitor, with a bigger trade; and it is also generally true that by the failure of the weaker competitor, and his own consequent increase in trade, the large competitor becomes, to a certain degree, a still cheaper seller; for, with comparatively few exceptions, large undertakings can be conducted at a less cost, in proportion to the business transacted, than can small ones; and, further, the same percentage of profit from a large enterprise as from a small one may enable the owner of the large one to make enough to live in comfort and affluence, while the owner of the small one may obtain so little that he may, perhaps, lack life's necessities. The larger the business transacted, the smaller the percentage of profit necessary to its success.

Competition is impossible without competitors; yet if there is a struggle of competition among a given number, eventually one must prevail. But it will be asked: "Is it not a fact in industrial history that there are always new competitors springing up?" It is. New competitors will spring up; but, as a rule, the new competitors are larger competitors than those that have been vanquished. If not so at first, they soon become so. Competition generally is a process of constant, steady elimination. The winner in the

struggle will be he who gives the most for the money. This person will be the first to sell his product and, in so far as he can supply the entire demand, the others will have no market and must go out of business. Assuming that a small producer could by some labor-saving machine produce more cheaply, it would be only a short time before he would have his competitor's trade and become the large producer. But with the increased trade that would come as a result of the cheaper production by this new machinery, there would also come increased capital,—either accumulated profits, borrowed capital, or associated capital. It would come because it would be an absolute necessity to carrying on the increased trade; it would come also as a result of the business. As soon as the little producer, who got control of the labor-saving machine or process, became the large producer, his position would unquestionably be stronger and his ability to produce cheaply would be increased.

In the struggle of competition it is always the weakest that is trodden under foot, and it is generally the smallest that is the weakest. The process is continuous and cumulative. The little goes down before the large, and the large rises above and upon the little. This is not the result of trusts. It is the result of competition. It is not the result of trusts, but it is the cause of trusts. The underlying cause is that irresistible force that has never yet ceased and probably never will,—*the demand for cheap production.*

Large production is usually cheap production. The large competitor has an advantage in the struggle. He is more apt to win than is his small and weak competitor. It is only an exemplification of nature's cruel law, the survival of the fittest; and of the pitiless economic law: "To him that hath shall be given, and from him that hath not shall be taken even that which he hath"; and of that dogma of

social despair, "The destruction of the poor is his poverty." Thank God that there are exceptions! Yet we can make no progress without recognizing the stubborn, though cruel, facts.

Why are the largest producers usually the cheapest? Because they can with their great capital obtain the most improved machinery, bring together the largest force, secure the best talent, spend the greatest sums in experimentation, utilize waste products, develop new markets, weather the storms of financial panics, offer the most favorable terms to purchasers, transact the largest business (and therefore be content with a smaller percentage of profit). As a result of all these things they produce and profitably sell at a small amount per unit of product. The business enterprises thus equipped are reasonably sure in the struggle of competition to overcome their weaker competitors. The natural law of political economy is for the large to become larger, because the large is usually the cheap. Our old time competitive system leads naturally up to huge industrial enterprises. Bigger and increasingly bigger, then, is the usual, normal, and natural tendency of industrial enterprises. Its cause is the demand for the cheaper and the increasingly cheaper; its result is cheapness, which itself results in greater bigness, and this again causes further cheapness. Bigness, cheapness, greater bigness, further cheapness,—this has been, is now, and always will be the normal tendency and movement of economic and industrial progress.

Competition, then, unrestrained and left to its natural course, tends finally, but tends normally, towards the extinction of the small and weak, and towards the survival only of the large and strong. Great industrial organizations are the logical, inevitable, and ultimate results of competition. The formation of trusts, whose avowed purpose

is to save competitors from defeat in the war of competition, as will be seen later, is very often only a short cut to this goal. It is the throwing up of the sponge in the early rounds of the fight before the knock-out blow comes, on condition that the competitor who is nearly "winded" shall receive a part of the gate money.

It is a fact of common every-day knowledge that under our present condition of industry, as soon as one man is known to be engaged in a money-making business, great numbers of others engage in it, lured by the prospect of immense profits. There is a pell-mell rush to start in that business. Each aims to supply the whole market. Each introduces machines, processes, and methods of organization designed to cheapen the product so as to be able to undersell his competitors. The lower the price, the greater is the necessity of a large output in order to reap an adequate aggregate profit. The larger the output, the more it is necessary to reduce the price in order to sell the product. The farther this proceeds the more aggravated the situation becomes. Competition is first active, then intense, then bitter, then destructive, finally self-destructive. In the end we are confronted with over-production and shutdowns; cut prices and sacrifice sales; depression, stagnation, and bankruptcy. When this excessive competition, like a fever, has run its full course those who have been able to survive, combine, formally or informally, tacitly or openly, to regulate the production, in order to make it commensurate with the demand and to obtain prices that will yield at least fair profit. Trusts, and the great corporations commonly called trusts, are forms of combination for this purpose. "Low prices" is the popular cry. Trusts are the means used to comply with the request. Trusts are inevitable because the demand of the consuming public for lower prices is an insatiable appetite. It is sure to

gnaw away profits, until a time comes when for a season, at least, it no longer pays some of the producers to produce. To avoid seemingly impending ruin they unite with their competitors, and a trust is formed to escape destruction in a warfare which others have largely urged on. Competitors fight for markets like dogs which the consumers set on with cries of "sic 'em." Not infrequently the contest ends for the combatants like the famous Kilkenny cat fight, when of the fighters "there was naught left but the tips of their tails and the bits of their nails." We do not say that all trusts are organized solely to escape the evils of undue competition, or that in every case profits have been wholly wiped out; but whatever other motives may have existed, the chance to obtain the benefits of cheaper production, better regulation of output to demand, and fair prices, has been a most powerful motive in the formation of trusts. Many trusts have been formed for purposes of stock manipulation, but frequently the cause has been excessive competition. It has been, "Trust or Bust."

There has always been a tendency for industrial organizations to increase in size. It is more marked to-day, because invention and discovery have enlarged the field of business, strengthened the competitors, and intensified the competition. The vastly improved means of travel, communication, and transportation tend to build up trusts, since they tend to increase competition. When the market was limited by the circle whose radius was the stage route, competition was bounded by that circle. Outside of it, a maker, although his cost of production was greater, could nevertheless find a market and could sell his goods. The great expense of transportation by these primitive methods, when added to the cost of production, often made it necessary for the cheap producer to charge in the relatively dis-

tant market a price in excess of that charged by some producer in that remote locality whose cost of actual production was much greater. But transportation has now become so much improved that each producer is the active competitor of all others. When shoes were made by hand and the stage was the means of transportation and communication, my local shoe cobbler could charge me much more than a cobbler in Syracuse, twenty-five miles away, because it would have cost me much to go to Syracuse to be fitted, and it would have been quite an expense to get the shoes from Syracuse, even if I did not have to go there to be fitted. To-day if my cobbler were to charge overmuch, I could buy from many stores in my own city of Auburn, N. Y., shoes made at Lynn, Mass., or Brockton, Mass., or at many other places hundreds of miles away. Fifty years ago my local cobbler had hardly a competitor. To-day he competes with all the great shoe factories throughout the entire country. To-day, to tell the truth, my local cobbler is out of business, that is, he is no longer in business as a cobbler. The factory-made shoes were better and cheaper, and we took our trade from him. But the cobbler has now a place in the shoe factory where he makes more money than he did years ago when he pegged on his own last. The weak and struggling are no longer to any extent beyond the reach of competition.

Although improved transportation has increased competition, it has, nevertheless, expanded opportunities. The prize is proportionately great. Contracts for material of the value of millions are to-day not uncommon. Transactions involving the amount of a king's ransom are as frequent now as were those amounting to hundreds of dollars in years gone by. While I am writing this, the evening paper has been laid on my desk (April 11th, 1900), and I read that the New York Central Railway has just given

to the Carnegie Co. a contract for 35,000 tons of steel rails, amounting in value to $1,190,000. The business needs and opportunities of the present day are many times greater than before the days of railroad transportation, telegraph and telephone communication, steam power and international travel. Business methods have to keep pace. Concentration of capital is inevitable; combination of effort is absolutely necessary. The competitors for these great trade opportunities must be immensely large and powerful. Great industrial corporations are the latest business mechanisms for doing the great business of the world. They are formed because they can do the work. To-day America is reaching out for the foreign market. She is winning it. Americans built the Atbara bridge in Egypt. The Cramp Shipbuilding Co. is turning out cruisers for Russia and also for Japan; their value is millions. Pittsburgh iron and steel manufacturers have taken stupendous contracts in China, Japan, Europe, Australia, and Africa. But every nation is a competitor for this foreign trade. The market for every producer is the world. Every man may strive to obtain it, but the victory is to the strong. Napoleon uttered a historic truth when he said: "God fights on the side of the strongest battalions." In the mighty struggle for the world's industrial and commercial supremacy which has already begun, that nation will win whose industries are marshaled into mighty but perfectly organized phalanxes, capable of undertaking gigantic industrial tasks and accomplishing them successfully. The little concerns must quail before the call to perform such commercial duties. Competition, here, gives the prize to the strong and large. Could any concern with less capital than one of the great industrial combinations, have taken and filled a six million dollar order for a railway in Russia, as has been done? Could any small concern, anything less than a trust, fill

this order? The great industrial organizations have come into being largely because they were necessary to do the enormous business that exists. Prof. J. W. Jenks of Cornell University, one of the most reliable and trustworthy sources of information as to trusts, is authority for the statement that the head of one of the greatest industrial combinations had assured him that his concern would bring in $500,000 in profits from their foreign trade. Pygmy establishments do not build up such trades. Furthermore, not only do these gigantic business corporations alone seem able to deal with the immense trade opportunities when they are presented, not only are they the only competitors who can handle these big deals, but competition prevents any but big concerns from building up such a foreign trade. It is manifest that it will not pay to attempt to work up an export trade unless it is a large one. It costs a great sum of money to introduce an article into a foreign market. Only a gigantic business enterprise can successfully develop such a market.

Again, the contest for the markets of the world means the most intense competition between the wage-earners of the nations, that has ever been known. It is the hardest struggle into which American industry has ever entered. About every nation to which we export has cheaper labor, and in order that we may be able to produce cheaply enough to compete with producers employing this cheap labor, it is necessary that the most economical and labor-saving methods as well as machines be employed. Enormous capital is necessary, and enormous capital, well organized, can overcome the competition of cheap labor. Take for instance the Standard Oil Co. and its foreign market. This great company has developed a foreign trade which brings into this country, each and every year, $60,000,000 in gold. Who will ultimately obtain the markets of the world?

What is it that will finally determine the question? Is it merely governmental control? Is it governmental dominion? These may have their influence, but in the long run the determining factor is the price. It is true that trade follows the flag, but the greater truth is that trade follows the price, and the flag is chiefly a protection to the trade. All the industrial countries of the globe, those of Europe, America, as well as Japan, are to-day competing for the markets of the world. The United States can win that trade and hold it, for manufactured goods, only by offering those goods at as low a price as their European and Asiatic competitors. Against the cheaper labor of foreign competitors, the United States can obtain and hold the markets of the world for manufactured goods, by adopting labor-saving machinery and by availing themselves not only of every perfection of equipment and of process, but also of all the perfections of organization. This is possible only through centralization of industry and aggregation of capital. Our raw materials, although produced by individual efforts, will generally find a market; but it is most significant that of all our exports of manufactured goods, eighty per cent are being to-day produced by great industrial organizations, which are, in fact, known as trusts. In Europe, especially in England and Germany, we find, to-day, great associated capital in business enterprises. Those nations will beat us in the struggle of competition, unless we use every method and every means that tend to cheapen our product without decreasing the wages of employees. The foreign market is absolutely necessary to American industry and prosperity. The productive capacity of the labor-saving implements and machinery of the United States more than equals to-day that of a population of 400,000,000 not using labor-saving devices. It is this absolute need of a foreign market in which to

dispose of our surplus products, and the intensity of the foreign competition, that have led to these perfections of industrial organizations from the standpoint of production,—the great business corporations of to-day.

We will be most foolish if we fail to perceive clearly the cause and means of our industrial success. Our competitors, who jealously watch our every movement, have noticed how we succeed, and are attempting to fight us with the same instruments. The following from *The New York Herald* of May 23, 1900, is worthy of the most serious consideration by every person who is interested in the prosperity of the American manufacturer, the American wage-earner, and every one whose success or welfare or prosperity is in any way connected with theirs:

GERMAN INDUSTRIES UNDER TRUST CONTROL.

SCARCELY AN IMPORTANT PRODUCT NOT REGULATED BY A COMBINATION.

Syndicates and trusts are obtaining control of almost all branches of industry in Germany.

In an article on industrial and commercial conditions in Germany, by Consul-General Frank H. Mason, prepared for the forthcoming volume of Relations of the United States, Mr. Mason says:

"In the report of this series for 1897 the remark was made that *as an incident and condition of Germany's perfect organization and industrial growth, its leading productive industries had been syndicated to an extent probably unknown in any other country.*

"What was true then is still more true to-day. The two hundred trusts and syndicates which were in existence in Germany at the beginning of 1899 are increasing in number day by day, until there is scarcely a single important product of manufacture of which the output, price, and conditions of sale are not governed by a combination or understanding between producers.

"One can scarcely open a German newspaper without finding a paragraph announcing a new combination of this kind, *or an*

article pointing to the recent notable multiplication of syndicated industries in England and the United States as an example of what Germany should do for self-protection."

Not only has the tendency to centralization, consolidation, and combination been caused in part by the increase in the intensity of competition due to the invention of labor-saving, cheap-producing machinery and to improved means of transportation, travel, and communication, it has been furthered by other inventions which have increased competitive forces by enabling men to exercise management over greater organizations and supervision over wider fields. The talent for management has developed with each increase in the size of organizations, and it has been aided and fostered by labor-saving inventions and discoveries. The stenographer and typewriter, the telephone (local and long-distance), the telegraph, rapid transit, and myriads of other facilities, have enormously multiplied the capacity of managers to dispatch business, and have enabled them to manage and supervise more and greater things. The modern means for transacting business have made possible the consolidation of a multitude and a magnitude of business interests under one management, which fifty years ago would have been physically impossible. Competition is fiercer to-day because each competitor has appliances and methods that give to him increased capacity and power and ability. Would these means ever have been invented or discovered if they were not to be employed for their natural ends?

Competition,—which by the way is nothing but the reflex of that popular demand for cheaper goods, which is as ceaseless and as irresistible as the force of gravitation, —has dictated not only the size of industrial enterprises, the degree of centralization, and the extent of combination of effort, but the manner and form. For a long time all

enterprises were under individual ownership, but when greater concentration became necessary, it could be secured only by a union of capital and effort and skill. For a century the partnership form of co-operation prevailed. Two or more men joined together; but there remained individual liability on the part of each for all the debts and liabilities of the partnership, regardless as to which person, in fact, made the contract or incurred the liability. Each partner was liable for the whole amount of the debts of the partnership, and however small a portion of his capital might have been actually invested in the business, his entire fortune, whether in that business or in another, was liable to be taken from him in payment of the debts of the firm. This rule of law as to the liability of partners naturally repressed and restricted the formation of partnerships, and prevented the concentration of wealth and combination of effort. The natural limitations of human endeavor, and the impossibility for many men to work together harmoniously and advantageously in joint management and control, were a further restriction upon and an impediment to the success of partnerships. The old proverb, "Too many cooks spoil the broth," has had innumerable exemplifications in partnership enterprises. Soon it became recognized that some relief was necessary, that some method of association must be provided for by law that would enable men to invest a portion of their wealth in business enterprises, with their liability limited accordingly. Statutes as to special partnerships were framed, but such statutes had to be followed and observed with such technical care that they never afforded a satisfactory relief, and never made possible that concentration of capital which the advance in industrial opportunities made necessary. Some scheme whereby men could invest portions of their capital in business enterprises, whereby

they could put their spare money in an enterprise which they themselves should not be obliged to manage or control, and with only a limited liability for the debts of the organization, became necessary. Men do not like to put all their eggs in one basket. Many of them want to distribute their money in different enterprises in order to lessen the risk. Where many co-operate it is necessary that a few manage and direct; but to induce people to put their money under the management and direction of a few, you must, at least, assure them that only to a limited extent will they be liable for debts which are not of their own creation. The partnership form of organization could not bring together enough capital. Its successor was the corporation. It was the multiplication of inventions, it was the wide expansion of the market, it was the enlargement of the industrial world, that made this greater concentration of capital necessary and that gave rise to the modern business corporation. In the struggle of competition, the partnership with its limited capital, unlimited liability, and cumbersome methods, could not do business as cheaply as the corporation. This is what has led to the growth of corporations. The trusts of to-day are gigantic corporations,—corporations of corporations. They may possibly be more than this, but this much, at least, they are. There may be, in fact, are, various causes for their formation; but this much, at least, is certain: one cause, one great cause, of their formation is their economic superiority. They possess the power of cheaper and more abundant production. In proportion as they exercise the consequent power of lowering prices, is the likelihood—yes, the possibility of their continuance.

Competition,—the old-fashioned competition that weeds out the weak and inefficient,—gave birth, then, first, to the partnership, afterwards to the corporation, and in our

day to the gigantic corporation. The story of economic progress, from the dawn of industry until the present moment, is the record of the concentration of effort and the combination of productive capital. Co-operation, concentration, consolidation, and combination,—these are the results of competition.

CHAPTER IV.

THE WASTES OF COMPETITION.

THE most noticeable fact in the industrial history of the times is the complete lack of anything like efficient organization of industry at large. Our advance in general business organization has not, until within recent years, kept pace with our wonderful inventions and discoveries. Our productive agencies have been mightily improved, but the marshaling of our industrial forces has not received the study that it deserves. Trusts are in some instances, at least, attempts at better organization. The evils of the system, which such trusts combat, are the evils of unregulated competition. Professor John Graham Brooks in his address at the Chicago Trust Conference declared that one of the most successful business men in the East had said to him: "If people generally knew how stupidly and wastefully much of the large business is carried on we should become objects of ridicule"; and yet the trusts, which are designed to correct these faults and to save these wastes, are the objects, to-day, of popular suspicion, reproach, and hatred. The Chairman of the Interstate Commerce Commission is quoted as saying, in substance, that if the worst enemies of the railroads had charge of the great means of transportation, they would never dare to do the reckless and indecent things which the managers of the railroads themselves have done in their attempts at competition. Professor Brooks is also the authority for the statement that in the business of insurance, which has been considered a marvel

of organization, there is such waste by reason of unregulated competition that one of the foremost men in the insurance business said to him: "It would not be safe to have it known how extravagantly things are managed, or to what sorry shifts we are driven"; and that when Professor Brooks asked another prominent insurance man if this criticism were just, he replied: "Oh, competition has got us now where the only dress we ought to wear is the cap and bells." Trusts, when organized, as they often are, merely as unions of producers to secure the advantages of such a union in producing, are attempts to regulate business with some degree of wisdom and judgment; but trust organizers are almost invariably denounced as foes to industry and to society.

The wastefulness of unrestrained competition is the great obstacle in the way of cheap production. It is ruinous to the competitors; it is disastrous even to the community. It not only absolutely prevents cheap production; it necessitates high prices. What are the incidents to-day of competition? They are known to every one; personal observation and experience make us all cognizant of them: —duplication and multiplication of effort to obtain a single result, several salesmen striving to secure a single order, selling agencies uselessly multiplied and selling expenses necessarily increased, sales without a profit in order to prevent rivals from selling, sales upon terms of credit that are in themselves a mere dissipation of capital, cut prices and bankrupt sales,—these are the methods of modern business life. Competition is said to be the life of trade; but competition, *as it is practiced*, is, in fact, frequently "war to the knife and knife to the hilt." It is business committing suicide. Can men be blamed,—are they, in fact, to be condemned or criticised,—for endeavoring to stop this senseless, useless, and debasing warfare, this fatu-

ous self-destruction? Justice Gray of the New York Court of Appeals voiced a growing sentiment when he said in Leslie *vs.* Lorillard (110 N. Y. 519): "I do not think that competition is invariably a public benefit; for it may be carried on to such a degree as to become a general evil."

From the standpoint of the producer, it is to be borne in mind that at least three-fourths of the men engaged in business, according to the reports of the commercial agencies, fail at some period of their business careers. Special statistics for manufacturing, milling, and mining,—the industries in which trusts are most frequently formed,—are not at hand; but these business enterprises are known to be risky and speculative. When successfully conducted they are apt to be very profitable; in fact, they are alluring to the capitalist. But they are always hazardous; even those, which for a long time are successful, frequently become embarrassed and fail; and the extent of the loss seems usually to be a much greater portion of the capital invested in them than in the case of failures of mercantile enterprises.

The interest of the community, however, is to be considered from the standpoint of the consumers rather than that of the producers, for if we consider any one industry, the consumers vastly outnumber the producers. Is the old-fashioned competition between many struggling competitors,—competition unrestrained and uncontrolled even by voluntary action,—is this always the best thing for the consumers? Can the trusts by any possibility be of benefit to them? The answer is that the waste of competition is so great that it does not permit the cheapest production; that while it wipes out profits, it does not necessarily lower prices; that our present industrial system, with its lack of organization and control, and its waste of energy, is extravagant and costly.

There was once a miserly man who thought his horse ate too much. Each day, therefore, he gave him a smaller and smaller quantity of oats and hay, until finally he gave him none at all. "Just at the moment when I had gotten him trained to live on nothing," he afterwards said, "he died."

The great army of consumers is ever clamoring for lower prices. "The profit of the producer and of the distributer is too high." "They eat too much." By competition the profit is gradually lessened. The producer and the distributer are allowed to bite off less and less. The consumer rejoices. Then the profit soon vanishes entirely. Just as the demand for low prices and the competition that caters to it, get the producer or the distributer to the point of producing or distributing without a profit, he goes into bankruptcy. Just at the moment when he has gotten trained to live on nothing, he dies, as a business man; he vanishes as a competitive force. Here is the consumer's victory; but where is the consumer's gain? The competition,—at least a part of it,—has died with the competitor who fell a victim. Is not the consumer hoist with his own petard?

If we turn from the parable to the judicial dictum, we find the same truth declared. In Kellogg *vs.* Larkin, 3 Pinney 150, the court said:

"I apprehend that it is not true that competition is the life of trade. On the contrary, that maxim is one of the least reliable of the host we may pick up in every market-place. It is in fact the shibboleth of mere gambling speculation, and is hardly entitled to take rank as an axiom in the jurisprudence of this country. I believe universal observation will attest that in the last quarter of a century competition in trade has caused more individual distress than the want of competition. Indeed, by reducing prices below or raising them above value (as the nature of the trade permitted) competition has done more to monopolize trade, or to secure exclusive advantages in it, than has been done by contract. Rivalry in trade will destroy itself, and rival tradesmen seek to

remove each other, rarely resorting to contract unless they find it the cheapest mode of putting an end to the strife."

As a matter of fact the consumer is frequently injured by excessive competition. He is benefited, however, by everything that reduces the cost of the article to the producer, unless the reduction in cost comes from the degradation of labor; for this makes it possible, at least, for the consumer to get it at a reduced price; and further, the industrial history of the world proves that reduced cost always ends and results in reduced prices. There is no positive evidence that this latter fact will be changed under the system of industry in which trusts predominate. But of prices we will treat later.

Is there any fixed point beyond which there is no economy in consolidation? The wastes of competition manifest themselves in production as well as in distribution. Is there any natural limit to the working of the general rule that large organizations produce more cheaply than small ones? Much depends on what is meant by production. Prof. Henry C. Adams of the University of Michigan, in an address before the Chicago Trust Conference in September, 1899, argued that there was such a natural limit. Let us quote him:

"It is common to say that increase in the size of a manufacturing plant permits the production of commodities at less cost than would otherwise be the case. There is undoubtedly some truth in this statement. The development of machinery has gone hand in hand with the growth of factories, and as a result the product is furnished at a cheapened rate. But there is a limit to the application of this rule. Every manufacturing industry, considered from the point of view of production, has at any particular time a size which may be regarded as its normal size of maximum efficiency. This normal size of maximum efficiency is determined by the extent to which division of labor and the use of machinery can be applied. To increase such an industry by one-half would not result in a decrease of the cost of

manufacture, for it would occasion a less effective application of the principle of division of labor. While, therefore, it is true that the concentration of capital and labor under a single direction is followed by economy up to a certain point, it is not true that combination and concentration beyond that point tend to reduce the cost of production. He who accepts this statement of the case must conclude that manufacturing combinations (I say nothing of other forms) contribute nothing to the reduction of the cost of manufacture beyond what would be contributed should each of the industries continue its independent competitive existence. This is a curt answer to a profound question, but it is believed to rest upon sound analysis and to lead to the conclusion that the motive for a trust organization of manufacturing industries is not found in a desire to benefit the public by the reduction of cost."

It must always be borne in mind, as pointed out in an earlier chapter, that the limits of managing capacity, and of profitable production, are being constantly expanded by such inventions and discoveries as the typewriter, telephone, cash-registers, and by improved means of transportation and communication. Talent and skill in business management are being constantly fostered and developed by and with the constant increase in the size of business organizations. Any attempt to set arbitrary limits to this size,—any statement that up to a certain point and no further, an organization is a cheap producing agency,—is to declare that progress has come to a standstill, that inventive genius is dead, that the capacity of human development is exhausted. There may be numerous reasons for limiting the size of our great business organizations, but the basis of those reasons does not lie in the possibility of their becoming so unwieldy that they will not be as cheap producers as smaller organizations. In so far as this productive capacity is concerned, the proper policy is to remove all special privileges, prevent all unfair discriminations, clear away all the obstacles to the free working of economic forces, and let the

laws of trade work themselves out. Then it will be found that the unwieldy trust will go to pieces. Mere size will, in itself, no more permit the trust to win than it availed Goliath in his contest with David. Without arbitrary laws capriciously limiting the size of business organizations, these organizations will, if trade is left free and unhampered, as surely find the point of maximum efficiency for their capital, as water is certain to find its level. On the other hand, all the legislative fiats in the world that declare, "Thus large you may become and no larger," will be as futile as were the words of King Canute to the rising tides, "Thus far shalt thou come and no further."

If by production, Prof. Adams means simply the making of the article, he may possibly be correct. But if that be his meaning it matters little whether or not he is correct. The cost of goods to the consumer depends upon the cost of marketing as well as making.

We have mentioned in an earlier part of this book how the demand for cheap production has always necessitated the adoption of new machinery and the best processes, and how it has always necessitated concentration of capital and combination of effort, and how, as a rule, the large, well-equipped establishments, being the cheap-producing establishments, have defeated the small and weak establishments in the struggle of competition. This same demand for lower prices is not contented with the savings that inventive power has made possible. It demands all the savings that can come from better organization. Notwithstanding all the outcry against trusts, the people clamor for cheaper and cheaper goods. This demand can be acceded to by producers only by availing themselves of all the economies of shipping from convenient centers and of large production at the cheapest places, and of

the economies of administration and distribution that come from a perfected organization, and of the economies that can be suggested by those of special skill whose talents can be obtained only by the expenditure of great sums of money. Just as the demand for low prices compels the adoption of machinery, it compels the formation of larger industrial organizations. There is probably not a single one of the great trusts that cannot effect enormous savings in the making and marketing of their product; that cannot furnish it to the consumer at a less cost (cost of raw material being assumed to be the same) than prevailed when the same article was made and marketed by each of the concerns embraced in the trust. We admit that the chief saving of trusts is in improved methods of distributing its products; but this saving is enormous. The intensity of competition has undoubtedly made the expense of marketing one's product, not infrequently greater than the cost of making the product.

What are the economies which trusts make possible? What are the industrial advantages of this form of organization? Briefly speaking, they are the savings of the wastes of competition. They are the benefits of organization as contrasted with the evils of an entire lack of organization.

First. Trusts are able to buy in large quantities and therefore cheaply. Perhaps it will be said: "This is no advantage to the public, for if they buy cheaply, the seller must part with his goods at a low price. This is a benefit to the trust purchaser, but it certainly is no benefit to the seller and it may be of no advantage to the community." But it is an advantage to the community in just so far as the cheapening springs from the ability to perform a very great task or to do a very large work with

an expenditure of energy proportionately less than that required for a little task or a small undertaking. The unceasing attempt to procure cheaper goods is a struggle for progress whenever it aims to accomplish its purposes by causing production or distribution with less labor. If large quantities of goods can be bought and sold and shipped and delivered at a lower proportionate expense than small quantities, then the lowering of the price is a benefit, because it represents a cheapening of the cost. It is a positive, actual, permanent benefit to the community, which a mere cut of prices that did not result from a cheapening of the cost of production might not be. It would hardly seem necessary to argue the proposition that the ability to buy in large quantities and therefore cheaply (if followed by a lower selling price) is a benefit to the community. But trusts are to-day fiercely assailed because of the very fact that, it is claimed, they tend to lessen the price of raw materials. This statement will be discussed more fully in a subsequent chapter and the facts will be considered. But let us for a moment consider the logical outcome of the argument of those who contend that the lessening of cost due to the purchase in large quantities, because it is apparently so great an injury to those who sell raw materials, is an element of injury to the people, and one of the evils of trusts. If it is a bad thing that prices be lowered because of purchases in large quantities,—if directly or indirectly trusts for this reason should be prohibited or made impossible,—then why not enact and declare that henceforth and forever, purchases should be in smaller quantities than are allowed to-day? Why not forbid all wholesaling? Why not make the retailers sell only by the smallest unit of measure? The absurdity of such a course shows the equal folly of

attempting to limit large purchases by trusts because they result in a cheaper price to them.

Second. A second economic advantage of trusts is their ability to sell in large quantities, with a smaller selling force and at a smaller percentage of expense. Consequently, they can, if they will, sell more cheaply. The question whether they do, in fact, sell at a lower price,—the vital question of trusts,—will be considered in following chapters. But there are many who seeing all the hardship that is caused by the displacement of labor, by the discharge of large numbers of commercial travelers whose services are no longer needed, by the elimination of a great number of jobbers and middlemen, and seeing all the suffering and inconvenience and financial loss sustained by them, consider this ability of trusts to sell with a smaller selling force as a great objection to trusts and one of its worst evils. The matter can be referred to here only briefly; fuller consideration will come later. But if it is folly to dispense with the now useless selling force, and with the jobbers and middlemen who are no longer needed; if it is to the advantage of the community that these people be kept at work although the same work could be done without them, why would it not be wise to insist that every wholesaler and every manufacturer and every jobber should double his force of commercial travelers and should establish twice as many selling agencies, and why should not a larger number of men be drafted, if necessary, and compelled to go to work as retailers? The answer is that useless labor and toil are expenses and burdens not alone to those who primarily pay for them, but eventually to all the community. We will never knowingly expend twice the energy that is necessary to do a given amount of work. We will not pay for that which

we can get for nothing; we will not part with our property for that which we know is of no value to us.

Third. Another important economic advantage of trusts is that the several plants of the organization being situated in different sections of the country, the demand of any one locality can be supplied from a plant in that vicinity, thus saving enormous expense in transportation.

Fourth. The necessity of a very large portion of the advertising, which is now so heavy an expense of business, can be saved by trusts.

Reverting to the last three points, let us consider a few facts of daily observation with reference to the amount of the expense incurred in the employment of commercial travelers, and in advertising, and in transportation. Tens of thousands of commercial travelers are employed, who are paid large salaries, besides their expenses in traveling and social treating. Their work is not so much to introduce new goods or to educate people in taste or style, as to solicit trade,—to entice it away from competitors and to their employers. Millions of dollars are spent annually in this country in advertising. Some of it is useful information, but the most of it is merely to call the consumers' attention to the business of one of several competitors,—to influence him to trade there instead of elsewhere. But what of the expense of transportation? The market to-day is universal; men sell their products in all sections of the country, in all quarters of the globe. Vastly improved means of transportation have wiped out old market limits. Freight rates have been marvelously cheapened; still freight is one of the heavy expenses connected with mercantile business. It is needlessly and wastefully so, because distribution is not made from appropriate or convenient centers. The enormous gross freight earnings of our railroads, to which must be added the vast sums re-

ceived by owners of steamboats, canal boats, and stages, show that the cost of what we eat and wear and consume is greatly increased by the expense of transportation. Much of this is needless. Trusts save a great deal of this waste. With mills in all sections of the country, the local demand can usually be supplied from local centers of distribution. The factory of New England need not send its products to the far West or to the South, to compete with the same products made there. "Coals need not be carried from Newcastle to Carlisle."

Fifth. There can be the greatest specialization in manufacturing. A plant which is peculiarly well adapted for the production of a particular brand or style or quality, can be used for that purpose. The very best special machinery can be profitably employed in it, and all the hands employed can specialize in this branch of the business. The best equipped plants may be run to their full capacity. Others which are needed, may, by means of the enormous capital possessed by the trust, be put in good working order. Those which are not needed may be closed. Many are continuously lamenting this closing up of industries, this throwing men out of employment, this blighting of the business prospects of flourishing towns and villages; but if the trust does not arbitrarily restrict the output, and if it is able with fewer plants and less men to produce all that is needed, why should it continue the extravagant and costly production that is incidental to running many small plants? If the closing of these unneeded factories is so great an injury, why not reap the full measure of benefit of the opposite policy, and insist that the number of factories in existence be, at least, doubled?

This shutting-down of factories and mills by trusts is condemned as one of the greatest evils of the new system, but it should not be forgotten that under the competitive

system, mills and factories and stores are constantly being closed, because unable to compete successfully.

The real evil of this practice of trusts in closing factories is not the closing of the factory so much as it is the practice of sometimes paying these people for periods of inactivity; and the more common practice of buying the plant in order to overcome its competition when it is known that it cannot be a cheap and profitable producer.

Sixth. A great advantage that the trust has in doing business, springs from the very fact that its plants are not all located in one place. No catastrophe can be conceived which will interrupt the entire business or completely suspend its operations. If a flood or a fire compels one plant to shut down, the business may be continued in other plants.

Seventh. While individual concerns which engage in the bitter struggle of competition not infrequently become so exhausted and their resources so depleted that they are unable to test or adopt new inventions or processes, the abundant capital which trusts are able to enlist enables them to carry on constant experimentation and to adopt the latest and most improved methods and means. It may be urged that if they have sole possession of a field of industry,—if they have a monopoly,—they will have no incentive to experiment with new methods or adopt new machines. But they have no legal monopoly, no exclusive legal right, and while their strength and their established trade give to them an enormous advantage over their competitors, they have no exclusive power to sell, except so long as they can sell most cheaply, and this they can do only when they can produce and distribute most cheaply. Despite all the incentive that the intensity of competition gives to separate individual producers to adopt the most improved ma-

chinery and the best processes, so as to survive in the tremendous struggle of competition, it is a fact that the inadequacy of their capital, the very bankruptcy occasioned by their competitive struggle, has frequently prevented their doing that which alone could keep them alive. When the International Paper Co. was formed, it was most bitterly assailed by the newspapers of the country. In an address presented by the American Newspaper Publishers' Association to the Anglo-American Joint High Commissioners, and signed by the owners of 157 newspapers, an arraignment of this trust was made. Whatever may be said as to the sufficiency of this charge against trusts, it is, at least, evidence from persons in no way favorable to trusts, and demonstrates our proposition that competitive producers are often unable when acting alone to adopt improved methods and machinery, which they could if consolidated.

In reading the paragraphs of this address, which are quoted below, it should be borne in mind that the paper trust embraced companies which were fairly representative of the trade. While it was a combination of the weak and struggling, it must have been a union of companies of financial standing nearly equal to the average of all those engaged in the business, for it took in at first twenty-five and afterwards thirty of the pulp and paper mills of the country, having an aggregate production of about eighty per cent of the total product of news paper. The paragraphs in the protest of the American Newspaper Publishers' Association, which are pregnant with significance, are the following, the italics being our own:

"Excessive and improper prices were paid for many mills that were located on exhausted water-courses and that were tributary to denuded timber tracts; for mills that at periods of the year have an insufficient supply of water or are under water; for mills

that are inferior and worthless in machinery, equipment, and construction; for mills that must pay excessive rental for water power; for mills that do not own or control woodlands; for mills that have neither pulp-grinding attachments nor sulphite auxiliaries.

"Five of the paper mills obtain their power at a total annual cost of $196,000. Two others are run by steam, which makes competition impossible, and five others have insufficient power. *Four owned no woodlands and ten of the mills had no sulphite auxiliaries. Ninety-eight paper-making machines were comprised in the plant of these mills, but only forty-eight of the machines were of recent date or desirable pattern. Not one of the mills in all the combination possessed all of the six essentials of the cheapest and most successful manufacture.*"

It is not only true that in the struggle of competition, the independent producers have been unable to afford the latest and most improved appliances and methods, but, when combined, they not only could afford them, but did, in fact, test and adopt them. One frequently reads or hears denials of this statement. It is therefore proper to quote so eminent and disinterested an authority as Ernst Von Halle, who in his book, *Trusts or Industrial Combinations in the United States,* has said:

"We find continual efforts at further advance, by the application of the newest machinery and of new labour-saving processes, and this as rapidly as is consistent with the amortization of the means of production on hand. For example, the American Sugar Refining Company has built a new refinery, furnished with the newest technical improvements, to serve only as a safeguard in the case of a suddenly increased demand, or of stoppages in other factories. The Cotton Oil Company has a great experimental station of its own. The Whiskey Trust has introduced quite a number of inventions to improve the quality of its product.

"By all new inventions the whole business is benefited at the same time, while the great number of plants gives a chance to make local experiments with new processes of manufacture.

"In this direction, none of the adversaries have been able successfully to accuse the trusts of negligence; on the contrary,

since the beginning, complaints have been based upon the very allegation that through the introduction of labour-saving processes and of machinery of the newest construction, and through the closing of superfluous factories, numerous workingmen have lost their occupation,—an objection which surely is not a new one, nor peculiar to this form of industrial progress. Only in combinations secure against all kinds of competition—i.e., legal monopolies—can there ever arise the danger of a standstill in methods of production."

A point that by no means should be overlooked is the ability of a great trust to give up one of its local plants for purposes of experimentation, whereas if that plant were the sole plant of any company, business could not be suspended for that purpose. Another point of vital importance is that as soon as the practicability of any process or machine has been demonstrated, as soon as it has been found to be labor-saving and cheap-producing, it will not be adopted by one of many producers, but will be placed by the trust in all the plants which make up the aggregation. Thus the benefit of any invention or process will be more speedily and more generally realized.

Eighth. The enormous capital of trusts enables them to spend large sums of money in the development and extension of trade in foreign countries. It is necessary here only to make mention of this great economic advantage, inasmuch as it has been discussed more fully in the previous chapter on the "Mother of Trusts," and will also be considered in the chapter on "Trusts and Expansion."

Ninth. One of the great economic advantages of trusts is their conservative influence in the matter of credits. Trusts tend to lessen cost by diminishing bad debts. Mr. Bryan has criticised this conservatism in granting credits. He has, in fact, declared it to be one of the evils of trusts, and has represented the retailer as being the victim of a somewhat merciless wholesaler. He has said: "The trust

can not only fix the price of what it sells, but it can fix the terms upon which it sells. You can pay cash, or if there is a discount, it is just so much discount, and you have to trust to the manager's *generosity* as to what is fair, when he is on the one side and you on the other." Without for the present considering the point as to whether the trust can actually and arbitrarily fix prices or even terms of sale, we believe that it will be generally conceded that one of the evils of the present competitive system is that which Mr. Bryan has chosen to refer to as "generosity" in the extension of credit. The cause of nine-tenths of the bankruptcies and failures is the abuse of credit. It is not only an evil to the man who is forced to give the credit in order to obtain the trade, but in the intensity of competition among sellers there is such an undue extension of credit, that not infrequently goods are practically forced on the retailer. He is virtually compelled against his own better judgment to over-stock. The inevitable result is a large percentage of bad debts,—a percentage which is kept down only by the maintenance by the large business houses of expensive collection departments. The consumer is the Atlas who bears upon his shoulders the whole commercial world. The sum total of bad debts and uncollectible accounts, as well as the expenses which the extension of credit necessitates,—the interest, the cost of book-keeping and of maintaining collection departments,—all fall upon him. When competition is restricted, the eagerness to sell is limited to sales to those whose solvency is unquestioned.

Tenth. The greatest advantage of trusts is the regulation of production. Handling a very large portion of the product of an industry, its managers can obtain approximately accurate information as to the market and its needs, and as to the demand for the article which they make. With

a full knowledge of the capacity of their own factories and of those of their competitors, if any, they can adjust their output to correspond with the demand. They can avoid the necessity of carrying large stocks; thereby they can save much of the expense of insurance, storage, interest, and shop-wear. When we try to conceive the vast total amount of these expenses, we are almost bewildered by the greatness of the figures; but, great as they are, a large portion of the expense would be saved to the world by the methods of trusts. But the greatest benefit is not the saving of the insurance, the storage, the interest, or the shop-wear, but that which comes from the lessening of the evil of over-production,—an evil, the crushing pressure of which is daily being felt more and more by all the industrial nations of the world. There is not an industry in which machinery has been perfected which is not being endangered by over-production. The machines which the skill and the cunning of men have invented, are becoming Frankensteins that now threaten to crush us. The eighty millions of Americans now have a productive capacity that is equal to the consumptive power of one hundred and sixty millions of Americans; and it should be borne in mind that the Americans are the greatest consumers of the world. It has been estimated that the machines in this country will enable its inhabitants to produce as much as four hundred millions of people could produce without labor-saving machines. There is not a single industry in which the evil of over-production does not exist to-day. Those in which it was first most acutely felt were the first to form trusts. Prior to the formation of the Standard Oil Company, the market was so glutted that not infrequently the oil was allowed to run to waste in creeks and brooks. The whisky industry has long been able to supply more than the demand. Soon after the close of the civil

war, the productive capacity of American distilleries was three times that of the consumptive power of the country, and prices were so depressed that occasionally alcohol was offered on the market at less then the amount of the tax. In 1870, to correct the evils of over-production, nearly all of the distilleries north of the Ohio River entered into an agreement to produce only to the extent of two-fifths of their capacity. In 1888, the export trade having greatly fallen off (because the foreign production had increased), the capacity of the distilleries was four times as great as the domestic consumption. In 1881, the uniform price was below the cost of production as it had been several times previous thereto, and a pool was formed for the express purpose of exporting whisky even at a loss so as to turn the product into ready money. The loss was apportioned among the different distilleries, which were regularly assessed for the purpose. When the first whisky trust was formed, it closed sixty-eight out of eighty distilleries, but with the remaining twelve it was able to furnish the same output as before and soon to increase it largely. It should also be borne in mind that the capacity of the plants owned by the sugar trust is four times the domestic demand; and that the cotton-oil trust was able, as soon as formed, to close many of its presses. It is always more satisfactory to cite an example which has come under personal observation. In the city of Auburn, N. Y., within the past week (May 24, 1900), there has lately occurred a shut-down in a shoe-factory which is the principal one in the town and one of the leading ones in the country. The statement of the company shows that this is but one of the thousands of similar cases which can be attributed to over-production. Here are some significant paragraphs from it:

"Statistics show that the shoe factories of this country, when running full, can produce as many shoes in seven months as we consume in a year. The general business of the country has been exceptionally good the past year or more, with the result that the factories have run full, and there has been a large over-production of boots and shoes, leaving large stocks in the hands of both jobbers and retailers. These conditions make it very difficult to obtain orders ahead, as the dealers, knowing the conditions and understanding fully that prices of leather are governed by supply and demand, feel that prices may be less, later on, and so are holding off and trying to dispose of stocks on hand, which seems wise for them to do. Dealers, willing to buy at all, are demanding and receiving concessions from manufacturers. Prices of leather so far remain fairly firm, so there is quite a risk for the manufacturer to buy leather at present prices and cut into goods for fall delivery when prices by that time may be much less.

"We finished cutting spring orders some time ago, and have since been running on fall orders, the bills for which are dated fall, to be paid at dates agreed upon after that time. Reports show that most shoe factories during the past six weeks have been running either one-quarter to one-half their capacity, or are completely shut down. We have always taken great pride in giving our help steady work, and often make sacrifices to do so, which they know nothing of. While we were considering the advisability, yesterday, of ordering more stock to keep running, the report came to the office that some of the employes were dissatisfied, and we concluded if they did not appreciate the conditions of trade and what we were trying to do for them, we would close down for a time, as other shoe manufacturers are doing, particularly as what fall orders we have booked are from one-quarter to half the size only that the same parties have usually given."

The evils of over-production are not measured by the fall in price which the manufacturer has to endure, but more by the enormous loss that falls upon the laborer who is thrown out of employment, and even more by the resulting stagnation that pervades all branches of industry and which causes financial panics and business depression,—those periods, so trying to the souls of men, which during

the last half century have been occurring with increasing frequency in America. Unless these evils can be combated and overthrown, unless our production can be regulated and restricted to our effective, healthful demand, or unless outlets can be found for our surplus products, instead of being a prosperous country and a happy and contented people, we will become a most wretched and miserable nation, and discontent, envy, and sedition will be rife.

It would be grossly unfair, however, to refer to the power of trusts to regulate production or to correct the evils of over-production by the development of foreign markets, without conceding that the power to prevent over-production implies, to a great degree, at least, the power arbitrarily to restrict production, at least temporarily, and thereby to raise prices unduly. This is but one phase of the great monopolistic element, which is more or less incidental, if not more or less inherent in trusts. But this point will be considered later. We have this year, in the spring of 1900, had either a most striking example of the abuse of this power of trusts over production, or else conclusive proof that even trusts that have succeeded in getting control of an entire industry, may be hardly more able to foresee the demands of the future than small separate concerns. The American Steel and Wire Co., within two months after a statement by the head of the company to the effect that the active demand, which, for many months, had characterized the market, was certain to continue, suddenly closed about a dozen of its plants and threw out of employment four thousand of its employees. This may have been done arbitrarily for the purpose of depressing the value of the stock of the company. If it was an actual necessity, it is hardly possible to believe that the managers of the company possess perfect business foresight. The closing of these works would hardly seem, however, to have

been for the purpose of so limiting production as to create an artificial demand in excess of supply, for the purpose of raising prices, because with the closing down of the works mentioned, the company did very greatly reduce its prices for the purpose of marketing its surplus stock.

Eleventh. Trusts work great economies by their ability to utilize waste, and to turn it into valuable by-products. The Standard Oil Co. in this way has built up enormous industries subsidiary to its main business of refining petroleum. Ernst Von Halle states that there are more than three hundred by-products in the domain of this company, which have yielded most valuable materials to numerous other industries. Thirty of these are commercial products in which there are large dealings.

Twelfth. We have alluded to the conservative power in business which trusts exercise by restricting credits. They present another financial advantage. They broaden the field of investment. It would be useless to deny that under the loose corporation laws that exist in most of our states, under the lax methods of inspection and control, and because of the shameless dishonesty which so often characterizes corporate management in this country, investment in stocks and particularly in "industrial" stocks, is hazardous. Yet when an aroused public conscience, when an enlightened commercial policy, shall demand that corporate methods be honest, that corporate management shall be faithful, that the acts and deeds of corporations in so far as they affect the public *shall be public*, and when fraud and misrepresentation in connection with corporate enterprises are punished as certainly and as severely as when they occur in individual dealings, and when those who are entrusted with the properties of great corporations are held liable as trustees thereof,—then, not only will the masses, who now deposit their accumulated

gains in savings banks, receiving the minimum of interest, find fields of investment which will be safe and secure and profitable, but business will receive the impetus that comes from new capital, and industry will have a further stimulus.

Thirteenth. Even under the present lax conditions of our corporate methods, and notwithstanding the slight incentive to invest in trust stocks, trusts are able to float their bonds at a lower rate of interest than that at which their constituent companies were able to borrow money before the consolidation. They are also able to obtain, by the sale of their stock, an ample working capital. In this way, again, they are a conservative force. Their bonds run for a long period of years and mature at a fixed date. This saves them from that great danger of independent manufacture, namely, the calling in by banks, in times of business depression, of their loans to them. The honestly managed and conservatively financed trust ought to have a less hazardous and perilous career than most manufacturing establishments in the past have had.

Fourteenth. Trusts, being relieved from the bitter struggles of competition, are able to raise and maintain the standard of quality. It must be conceded that the ability to raise it, implies the ability to lower it. This is one of the many phases of the monopolistic element which it is charged that trusts possess. But if, for the purpose of argument, we admit that trusts may demand to a great extent whatever price they wish to impose, we are then obliged to concede that some of the pressure that causes adulteration is largely removed; for, on this theory, whatever they add to the cost of production in furnishing a pure article, they can recoup in the price. It is, at least, pleasant to ascertain, as the result of investigation, that the articles which are made by the trusts that have been longest in business have been greatly improved in quality. Notwith-

standing some charges to the contrary, which have been made by Mr. Henry D. Lloyd in his book entitled *Wealth Against Commonwealth*, it is the general experience of those who, for the last thirty years, have used kerosene, that to-day its quality is better than ever before; that there is less danger of explosion, and that there is now scarcely a perceptible disagreeable odor. Ernst Von Halle asserts that the whiskey trust has done much to improve the quality of its product; and consumers throughout the country, although they may denounce the sugar trust, will almost universally admit that the quality of the article has been bettered.

Fifteenth. By no means least of the benefits of trusts,—in fact, one of the greatest advantages of this system as compared with that which prevails under competition, is the opportunity for comparative accounting and comparative administration. This is of immense benefit, not only to the trust, but to the consuming public. How often when one struggling competitor sees another apparently succeeding and prospering, he says to himself, "I wonder how he does it? What is the secret of his success?" It is evident to him that his successful rival has secured some advantages, but the latter, if a shrewd business man, keeps them to himself. If all the competitors were banded together in a trust they would compare notes, and if one was found to possess a better machine than the others, it would be procured by all. If another was found to have a cheaper process than the others, it would be adopted by the whole trust. If the organization of a third was considered more perfect than that of the others, all the factories and plants forming the trust would have an organization modelled after it. All the members of the trust would be the gainers, but those chiefly benefited would be the public.

So much for the economic advantages of trusts. So

much for the savings of the enormous wastes of competition, which trusts can bring about. But what of the economic disadvantages of trusts? Perhaps the most important of those which suggest themselves as inherent in these organizations is the loss of individual initiative and a possible smothering of individual incentive. The trust is largely impersonal. It loses much of the good-will that its constituent members formerly had. There are many who fear that it will not be a beneficial form of industrial organization, because they think its officers and servants will not work so faithfully and energetically for the proprietors who live far away and with whom they never come in contact, as they would for a master under whose eye they worked. There is an even more widespread belief that trusts are crushing out individuality, that they tend to close the door of opportunity, and that inasmuch as fewer men can be heads of enterprises and independent proprietors, there will be no incentive to them to do their best. It is felt that since the hope of securing an interest as owner of a plant is gone, ambition has gone with it. It is claimed that, inasmuch as from the manager down to the cheapest laborer, all of the persons who are actively indentified with the work of the trust are employees, therefore there is no longer the same spirit animating them. We believe these dangers have been greatly magnified. Conceding that comparatively few men will now obtain a proprietary interest, we believe that the prizes of business life are larger than they ever were, and business opportunities are greater. The larger and the more perfect the organization, the greater the incentive and the surer the promotion of the capable. Take, for instance, great railways, our largest and most perfect organizations. Is there not there an ample stimulus to energy; is there not an abundance of opportunities to act as incentive for the ambitious? Are

there not examples innumerable of men who have entered in the lower grades, and have worked themselves up to high offices and to positions even in the directorates? The modern trusts offer innumerable opportunities for advancement and the greatest of prizes for which to struggle. As in all our previous industrial history, they will be won by those who are most competent. "He will bear the palm who deserves it." We have had, as the result of the organization of the great Carnegie Company, a marked instance of the possibilities still open to young men. Charles Schwab was chosen president of this gigantic corporation. He is a young man who has worked his way up. The secret of his success has not been "pull," but "push." This attainment of this high place is not the result of accident, but of faithful working during business hours and of special study and extra work when away from the mill and factory. This instance is, indeed, exceptional, but still there need be no fear that ambition will be stifled as long as there is opportunity for advancement. Trusts are a form of organization that in its very nature is a scheme of orderly and regular and graded promotion of the efficient. A century's experience with business under corporate conditions should dispel all fears that the servants and employees and officers of those who adopt this form of business organization will prove indifferent to the interests of their employers. There are no employees more faithful than those of the business corporations which have been so common during the last thirty years. There is no reason to fear that the servants, officers, and employees of the greater corporations known as trusts will be less devoted to the interests of their employers.

A second evil of trusts is one that is financial, rather than economic; incidental and temporary, rather than inherent and permanent. It is the likelihood of rash and wild

speculation in trust stocks, tending to produce a feverish excitement in business. But this is an evil which can be corrected by the exercise of control over corporations.

There are many other evils that have, in the past, resulted from trusts. They are the occasional instances of extortionate prices, of unduly restricted production, of diminished wages, of depressed prices for raw materials. Besides these there is the possible deterioration of the quality of the product, and the danger of political corruption and domination. All of these are phases of the great question of monopoly as an element of trusts, which will be considered in subsequent chapters.

To sum up, if we consider the two elements of making and marketing which together fix the price of an article to the consumer, there can be no question as to the wonderful economy of the trust form of industry. Some of the largest manufacturers in their respective lines in the United States have been quoted as saying that the consumer often pays to the retailer twice what would be the cost of the article and a fair profit to the manufacturer. The great savings of the trust, which we have enumerated, make this statement seem not at all improbable. It is not difficult to believe that if that system could be perfected, many commodities could be sold for about one-half their present market price. Are instances of the savings by consolidation necessary? If so, suppose we take at first that much-cited, much-condemned trust, the earliest, and the strongest,—the Standard Oil Company,—the trust that has been criticised so much but which has never yet claimed to be the "Slandered" Oil Company. Can the Standard Oil Company produce more cheaply, or are its profits due wholly to depressing the price of crude oil, or to railroad discriminations in its favor, or to new inventions which would have been adopted had

there remained a great number of small competitors and which would have produced the same savings when used by the many? How does the Standard Oil Company tend in any way to really reduce the cost of production?

When this trust was being investigated before the House Committee on Manufactures, in the summer of 1888, the following statement was made by its counsel, in his argument:

"The Standard Oil Trust offers to prove by various witnesses, including Messrs. Flagler and Rockefeller, that the disastrous condition of the refining business and the numerous failures of refiners prior to 1875 arose from imperfect methods of refining, want of co-operation among refiners, the prevalence of speculative methods in the purchase and sale of both crude and refined petroleum, sudden and great reductions in prices of crude, and excessive rates of freight; that these disasters led to co-operation and association among the refiners, and that such association and co-operation, resulting eventually in the Standard Oil Trust, have enabled the refiners so co-operating to reduce the price of petroleum products and thus benefit the public to a very marked degree and that this has been accomplished:

"1. By cheapening transportation, both local and to seaboard, through perfecting and extending the pipe-line system, by constructing and supplying cars with which oil can be shipped in bulk at less cost than in packages, and the cost of packages also be saved; by building tanks for the storage of oil in bulk; by purchasing and perfecting terminal facilities for receiving, handling, and re-shipping oils; by purchasing or building steam-tugs and lighters for seaboard or river service, and by building wharves, docks, and ware-houses for home and foreign shipments.

"2. That by uniting the knowledge, experience, and skill, and by building manufactories on a more perfect and extensive scale, with approved machinery and appliances, they have been enabled to and do manufacture a better quality of illuminating oil at less cost, the actual cost of manufacturing having been thereby reduced about 66 per cent.

"3. That by the same methods, the cost of manufacture in barrels, tin cans, and wooden cases has been reduced from 50 to 60 per cent.

"4. That as a result of these savings in cost, the price of refined oils has been reduced, since co-operation began, about 9 cents per gallon, after making allowance for reduction in the price of crude oil, amounting to a saving to the public of about $100,000,000 per annum."

The amount of some of the other of these savings in this year, 1900, may be easily estimated. In 1872 it cost $1.50 to transport a barrel of oil from the wells to New York. To-day it costs only about fifty cents. The annual production of the company is about 35,000,000 barrels. In 1872 the barrels cost $2.35 each; to-day they cost not over $1.25. Of course, by no means all of the oil is transported in barrels, but the saving to the company each year is many millions. The expense of the tin cans used by the company has been cut in two; thereby they save many millions each year. It has also reduced the cost of the wooden kegs used by it, so that it annually saves about $1,500,000. In the manufacture of many of its by-products, such as naphtha, lubricating oil, paraffine, wax, etc., the trust is compelled to use large quantities of sulphuric acid. It makes its own sulphuric acid now, and instead of being obliged to pay for it one and one-fourth cents per pound, it is able to produce it for eight cents a hundred pounds. As shown in the chapter on Prices and Potential Competition, the decrease in the price of kerosene between 1872–1898 is so great that when applied to the annual consumption for the latter year the saving to the public is about $160,000,000.

But perhaps more conclusive than the statements of what the Standard Oil Company would prove, or than the figures just mentioned, is the inference that every one must draw from the enormous dividends paid by the concern. In 1872 none of the oil refiners were making money. About that time the Standard Oil Companies of Ohio and Penn-

sylvania formed an alliance with two other large refineries, the Pratt Co. and the Atlantic Refining Co. In 1882 the Standard Oil Trust was formed. In 1887, five years later, its capital was $90,000,000, largely water, but its profits, according to the report of a New York legislative committee appointed to investigate, were $20,000,000. Could the trust have made such profits if there were not economies in making and marketing occasioned by the consolidation, inasmuch as the separate companies in keen competition had none of them prospered? It should also be noted that the price of oil had decreased,—not only the price of crude but also refined,—and the difference per gallon between the cost of crude and refined, i.e., the cost of refining and transporting to the seaboard, was 14.32 cents in 1872, when the alliance was formed; and in 1887, the year the profits were $20,000,000, the difference was 5.16 cents. Can this mean anything else than cheaper production? If so, we must concede to the Standard Oil Trust what has never yet been conceded, that they have lowered prices even more than the decrease in cost of production. To-day (April 26, 1900) the Standard Oil Company is capitalized for about $100,000,000. It is still largely water, notwithstanding the fact that water and oil are not supposed to mingle, and yet so great are its profits, caused by the savings of the consolidation, that its stock is worth 590 in the open market. Yet oil has gone down still further in price. In 1897 the difference between crude and refined (the cost of refining and transporting to seaboard) was 4.04. Is not this cumulative evidence that the consolidation can produce cheaply, while warring competitors could not? In the three years, 1896, 1897, 1898, the Standard Oil Company's dividends aggregated ninety-four per cent of its capitalization or $91,415,000. The market value of its stock to-day is between $500,000,000 and $600,000,000.

Let us now look at the savings in cost of service, by consolidation of telegraph companies. Prior to 1866, our telegraphic service was done through a number of small local companies. To send a message across the country it was necessary for it to pass through the hands of not less than a half dozen companies. In 1866 they were all consolidated into the Western Union Telegraph Co. At this point, inasmuch as we are now engaged simply in studying the question whether or not consolidation gives cheaper cost of service or production, it is perhaps unnecessary to give particular study to prices or rates, but it is helpful for us to do so in order to see if profits come from reduced cost or higher charges. George Gunton has collected some valuable statistics in an article written by him for *The Political Science Quarterly* for September, 1888, but included by him in a book issued this year (1900). We quote from it:

"RATES FOR SENDING TEN WORDS FROM NEW YORK:

	1866	1888
To Chicago	$2.20	$0.40
" St. Louis	2.55	.40
" St. Paul	2.25	.50
" Cincinnati	1.99	.40
" New Orleans	3.25	.60
" Galveston	5.50	.75
" Minneapolis	2.10	.60
" Buffalo	.75	.25
" Washington, D. C.	.75	.25
" San Francisco	7.45	1.00
" Oregon	10.20	1.00
" State of Washington	12.00	1.00

Moreover, in 1868, when this country sent only 6,404,595 messages, it cost the company, on an average, 63.4 cents per message; and, in order to make a profit on the capital invested, the average price charged to the community was $1.047 per message, leaving 41.3 cents profit per message. In 1887, when the company sent

47,394,530 messages, the average cost per message was 23 cents; and the average toll to the community was reduced to 30.4 cents per message, leaving only 7.4 cents profit per message. It will thus be seen that during the twenty years of this monopoly the average cost of messages to the community, to all points, has been reduced 74.3 cents per message, or over 70 per cent; and that the profits have been reduced 33 cents per message. In other words, the total cost of the service to the community to-day is 10.9 cents per message less than the profits alone were before the organization of this company."

The cheapening of the cost of transportation as a result of combination and consolidation is equally worthy of attention. In his address before the Chicago Conference on Trusts in September, 1899, Mr. H. T. Newcomb, of the U. S. Census Office, said:

"The decline in railway charges in the United States has been continuous and extensive. The average rate per ton of freight carried one mile, measured in gold, has declined from nearly two cents in 1867 to less than eight mills in 1898, the last year covered by the reports of the statistician to the Interstate Commerce Commission. The price of wheat at the port of New York during 1867 would pay for the transportation of but 2.84 bushels of wheat, from Chicago to New York at the rates of that year; in 1897 the price, though considerably lower than in 1867, would pay for moving six bushels. In other words, the decline in the railway rate from Chicago to New York was twice as great as the decline in the price of wheat. The decline in passenger rates from 1871 to 1898 amounts apparently to 25 per cent; but, unlike that in freight rates, is not susceptible of satisfactory statistical presentation. The substantial identity of the service necessary to permit the use of the statistical method, has not, however, been preserved. The dollar that purchases transportation in a modern train, provided with automatic couplers and air brakes, traversing at sixty miles per hour, a track composed of Bessemer steel rails weighing 100 pounds to the yard, and guarded by block signaling apparatus, purchases vastly more than did the dollar paid for personal transportation a few decades ago, even though the distance traversed be but little greater at present. The public has preferred to have improved accommodations and better service

rather than very much lower charges, and, as usual in America, has had its way. The same rise in the standard of living that has given the American farmer his top-buggy, his piano in the parlor, his Sunday suit, and Brussels carpet, has given him the luxurious coaches and well-ballasted roadbeds, the safety and the speed of modern passenger-service.

But has the competition of rival routes produced these reductions in rates and improvements in the quality of service? I think not.

Such competition has caused numerous extravagant expenses; it has made railway business unnecessarily costly, and some one must have paid the bills. Let us examine some of these expenses, though it is not easy to secure authentic statistics, and those available serve to suggest only the possible aggregates. The Interstate Commerce Commission has reported that nine roads paid out an aggregate sum of more than one million dollars in a single year as commissions for securing competitive passenger business, and it is known that as much as $20.70 has been paid to secure a single second-class passenger from this city to San Francisco. The multitude of outside agencies and traveling agents maintained solely for the purpose of securing business for their respective lines that might otherwise traverse those of their competitors involves an expenditure so great, even during periods of comparative harmony, that it has been deemed necessary to restrict their number by contract. An agreement in force for a considerable time limited to eight the number of agencies that might be maintained in New York City by each of the nine roads competing for westward bound traffic from that city. As it is a fact of ordinary observation that such agencies always cluster in particular regions and around particular corners, it is obvious that a system of joint agencies would afford the public equal accommodation at lower cost.

"During the periods of unbridled competition, popularly known as 'rate wars,' each participating carrier sends its freight and passenger agents to every important city in the country at a total expense for rents, clerk hire, advertising, etc., that must be enormous. Four roads operating westward from Chicago are known to have expended $1,283,585 for outside agencies and advertising in a single year, during which rates were fairly maintained, while during an equal period one road terminating at New York City expended $871,291 for similar purposes."

Unquestionably trusts can, as a rule, produce more cheaply than small concerns. Unquestionably they can, as a rule, undersell small competitors. Unquestionably they can, as a rule, give the consumer the same or better goods at lower prices. What the saving by this method would aggregate can neither be accurately computed nor even approximately estimated. But it cannot be doubted that annually countless millions are spent in useless advertising, in paying unneeded commercial travelers, in needless transportation, in the insurance and care and storage of superfluous stocks, in making good the losses of bad debts, in paying for the increased expense of poorly equipped plants, and in divers other ways. By no means all of the expenditure for these purposes is a waste, but very much of it is. A large part of it is saved by the methods of trusts. Cheaper commodities to the consumer are certainly made possible. But does he get them? Does the producer pocket all this saving, or does the community get some of it? The community asks: "Will not the trust producer having the sole supply, or the practical control, of this particular commodity easily persuade himself that the saving is of his own creation, and that therefore he is entitled to all of it as increased profit? Will he not, indeed, eventually possess a monopoly, having, by reason of his very ability to undersell, driven out all competitors; and will he not, then, instead of reducing the price in accordance with the reduced cost, raise the price to an extortionate point?"

CHAPTER V.

WHAT IS MONOPOLY?

A TRUST is a gigantic industrial enterprise, but it is more than that. One should never lose sight of the fact that it is a union of producers who were formerly competitors, and that frequently it is a consolidation of *all or nearly all* those who, prior to the formation of the trust, were competitors. He who sees in trusts only big enterprises, is as blind as would be he who, standing on the edge of Vesuvius's crater when the volcano was in eruption, would see it only as a big hole; or as would be one who, swimming in the ocean, might be attacked by a shark, and would see it only as a big fish. The manner in which trusts obtain their size and in which they will probably use it, is quite as important as the size itself.

The wastes of competition are, as we have seen, one of the causes of trusts, as well as of all other increases in the size of industrial organizations; yet a trust attains its size not by waiting for competition to slowly kill off the weak competitors, but by anticipating and forestalling this extinction. Competition is the cause, but the paradoxical result is an attempt to stop competition. Trusts are combinations of competitive producers for the purpose of ending competition between them; and the result is generally a territory of greater or less extent in which there is no active competition whatever. This abolition of active competition between existing competitors is not infrequently

called monopoly,—a word that is an epitome of favoritism, partiality, greed, extortion, and oppression.

There can be no satisfactory talk until one knows what he is talking about; no useful discussion until the terms which are to be used are clearly understood, and the words which are to be employed are accurately defined. The word "monopoly" will be used millions of times in the discussion of trusts. It will be the summarized indictment of those who think trusts evil and only evil. It will be the substitute for evidence and proof—the "So, there now," of those whose convictions are stronger than the arguments which they advance. What is monopoly? It is necessary to know, for in the coming presidential campaign it will be repeatedly laid down as axiomatic that trusts are monopolies.

From time immemorial English and American courts have passed judgments against monopolies, and the constitutions of our states as well as the spirit and genius of our people have declared them repugnant to free institutions. What, then, is this odious thing? Monopoly, etymologically, means *the sole* (*power of*) *selling*. A monopoly in any commodity exists, in reality, only when one person or association of persons has the *exclusive ability, power, or legal right* to sell that commodity. If any one else has the power and ability as well as the right to sell it, no monopoly exists, even if only one person does in fact engage in its sale. *Monopoly is sole power: monopoly is exclusion.* The dusty tomes of the law are filled with decisions and rulings concerning monopoly, from the time of Coke to this day; but in these decisions, at least down to within very recent years, "monopoly" has had even a narrower meaning than that above given. It may fairly be said that the legal meaning of the word, as commonly used by judges and courts, was for centuries "the *sole legal right to sell a cer-*

tain commodity, or in a certain locality." The law concerning monopolies and restraint of competition has been thus summarized in the American and English Encyclopedia of Law; and in the same work it is declared that an agreement between two parties to prevent competition between themselves, and which leaves each party in its respective territory open to the free competition of all other corporations or individuals who may choose to engage in the business, is not a monopoly. (Am. & Eng. Encyc. of Law, 1st Ed., Tit., Monopoly.) This doctrine has been slightly modified in recent cases, as will be seen later. The monopolies that the courts had to consider for several hundred years—down to within the past century—were exclusive rights granted to one person or a few persons in that which was before, a common right. They were special and exclusive privileges in trade bestowed by the king or other sovereign power, giving to the favored person the sole right of trading, and absolutely denying that right to others,—restraining the latter of the commercial freedom and liberty they had before enjoyed and hindering them in their lawful trade. The disability of the latter was a legal disability, created not naturally but arbitrarily, enforced not by economic laws but by the powers of tyranny. Such monopolies are, indeed, repugnant to free institutions. They are truly violations of personal liberty. English jurisprudence dealt for centuries with this kind of monopoly, and it should never be forgotten that its decisions concerning monopolies apply only to this class of trade restrictions. Not until the closing quarter of the nineteenth century was industry so centralized that, without any grant of exclusive right by the sovereign, any one field of it was so completely in the possession and control of any one person or corporation, that it seemed as if there was a real inability to undertake successfully to compete in it. The decisions,

therefore, on monopoly rendered in these earlier days are not controlling. They may be to some extent analogous, but they are not strictly applicable. What has been condemned in these decisions by the courts for several centuries, therefore, is another thing than that which is now popularly called monopoly. It is not the "trust" that has been, in these early decisions, declared repugnant to the institutions of a free people, and inconsistent with liberty; nor is it anything, however great its power, that has acquired its power only in the bitter struggle of competition and without the denial to others of equal rights. We cannot cause the dissolution of trusts or the punishment of their officers by citing these old judicial decisions concerning "monopolies," which were legally different, although doubtless laws and decisions against contracts in restraint of trade and unlawful combinations and conspiracies, are precedents to be followed.

On the other hand, simply because trusts are not monopolies, according to old-established legal definitions, one should not take it for granted that they contain no evils; or that, for that reason, they have not the sole power of sale over the commodities they produce, with a power to fix prices at will and to control production arbitrarily. They may or may not have this power. The mere fact that they are not legal "monopolies," as the term was used for centuries, does not determine that question. The sovereign may not give a person an *exclusive right* to sell, but if one in any way acquires the *exclusive power* to sell, others will be injured fully as much as if the sovereign recognized in him an *exclusive right*—probably more so, because the *exclusive power* would brook no competition and would show little or no mercy; while the *exclusive right* which was granted might be infringed upon. The changed industrial conditions of the nineteenth century have brought

it about that not infrequently combinations of men and great corporations have been able apparently to secure all the means of production and distribution in a certain industry, and to have apparently the sole power of selling or producing; and our legal conceptions and judicial definitions of monopoly are rapidly adjusting themselves to that condition, real or supposed, which may, perhaps, be best described as "practical monopoly." Thus Judge Barrett, of the Supreme Court of New York, in the case of The People *vs.* The North River Sugar Refining Company, declared that monopoly is "*any combination, the tendency of which is to prevent competition in its broad and general sense, and to control, and thus, at will, enhance prices to the detriment of the public. . . . . Nor need it be permanent or complete. It is enough that it may be either temporarily or partially successful. The question in the end is, 'Does it inevitably tend to public injury?'*" This was the definition of monopoly which Judge Barrett gave in the Sugar Trust case, as being applicable to the industrial condition created by that trust which, he said, "can close every refinery at will, close some and open others, limit the prices of raw materials (thus jeopardizing, and in a considerable degree controlling, its production), artificially limit the production of refined sugar, enhance the price to enrich themselves and their associates at the public expense, and depress the price when necessary to crush out and impoverish a foolhardy rival." In the case of Richardson *vs.* Buhl the Supreme Court of Michigan said: "*All combinations among persons or corporations for the purpose of raising or controlling the prices of merchandise or any of the necessaries of life, are monopolies and intolerable, and ought to receive the condemnation of all courts.*" Chief Justice Fuller in delivering the opinion of the Supreme Court in the Sugar case

(the Knight case), said: "*All the authorities agree that in order to vitiate a contract or combination, it is not essential that it shall be a complete monopoly; it is sufficient if it really tends to that end and to deprive the public of the advantages which follow free competition.*"

Not only do the opinions of the judges of our courts recognize that under our modern industrial conditions we may, without the grant to certain persons of exclusive privileges by the sovereign power, be made, nevertheless, the victims of a grinding and merciless and extortionate monopoly, but the popular comprehension of this fact, or the popular fear, has caused statutory definitions of monopoly to be laid down along the same lines.

Monopoly, whether it be the result of exclusive privileges granted by the sovereign, or simply the sole power of production and selling, which comes from the possession of all the existing agencies for cheap production and distribution, is the curse of industry and the bane of liberty. In earlier chapters we have shown the evils and wastes of competition. No painter can portray in colors that are sufficiently lurid the wretchedness and misery and poverty that often result from excessive competition. No tongue is eloquent enough to describe the evils that frequently result from this system of industry, with its tendency to develop the selfish characteristics of human nature and to produce heartlessness and indifference towards the welfare of others. No statistician or economist can compute or measure the enormous waste and destruction occasioned by competition. But worse than competition is monopoly,—the paralysis of industry and the death of liberty. Monopoly is the sole power to sell,—the complete lack of effective competition. With all its faults and evils and wastes of excessive competition, it is competition, nevertheless, which is the great incentive to the creation of

wealth and the stimulus to all our progress. It is competition between sellers that has quickened invention and skill and given to us labor-saving machines and processes. It is competition that urges improvement in the quality of the products; it is competition that stimulates production to supply the enlarged demand; it is largely competition that has increased the employment of labor, raised wages and improved the condition of the laboring classes. Excessive competition is the fever that burns and kills; but complete lack of competition—monopoly—is *rigor mortis.*

In earlier chapters we have pointed out, and in succeeding chapters we will continue to point out, numerous ways in which the modern trusts that are formed for the purpose of controlling competition between those who enter into them, are of economic value; many ways in which they are, or may be, of great benefit to consumers, as well as to producers; many ways in which they may be of advantage to the wage earners. We will show how the hosts that will be displaced from positions and employment by these improved methods of organization will, or may, in time, find new situations; and how opportunities of employment will become more numerous, and the production of wealth more abundant. But there is one essential element to the realization of all these beneficent results; that essential is the lowering of prices in proportion to the cheapening of the cost of production. If by means of new discoveries or new processes or new methods of organization, five hundred men can do the work that formerly required a thousand, and if the cost of the article is reduced, the community will receive no advantage unless the price be reduced accordingly. What cares the consumer how much the cost of production is? His concern is the selling price—the cost to him. If with the displacement of labor and the cheapening of the product there be a lowering of the price, there will be a

consequent increase in consumption. At least some of the five hundred displaced laborers will find new employment in the effort to supply the increased demand. The rest will in time, doubtless, find employment in other industries. The community will have the cheaper and more abundant product; the wage-earner will obtain more constant work and remunerative wages. But if the cost of the product be cheapened and the five hundred laborers are displaced and the price be not reduced proportionately, there will be no increase in the consumption, but a constantly growing decrease; for the general body of consumers will have no incentive to increase their consumption of the product, and the five hundred displaced laborers, and all those dependent upon them being now without wages, without money and without the price, are removed from the ranks of consumers. The demand for the product has not only failed to increase, but has begun to decrease. The lessening of the demand means the discharge of more laborers, who, without employment and without means to purchase, still further decrease the army of consumers. The increasing number of unemployed and the relatively small amount of work mean an inevitable reduction of the wages of those who are retained, and a further decrease in the demand or purchasing power of the community. The decrease in the demand for the manufactured article means a decrease in the demand for the raw material from which the manufactured article is made, and this means lower prices to farmers and planters, lack of employment for farm-hands, less demand for agricultural implements, and the closing of factories in which these implements are made. The inevitable result is more men out of employment, wages again lowered, a further decrease in the demand, lessening of production, lack of purchasing power on the part of the community, depression, stagnation, and

finally bankruptcy, misery, want, and despair. The only corrective, the only revivifying influence is a lowering of prices in accordance with the cheapening of the production.

We have already referred to the action of the American Steel and Wire Company, which, in the spring of 1900, suddenly shut down twelve of its mills and threw out of employment 4,000 of its laborers. This was done less than two months after the head of the concern had uttered roseate predictions as to the condition of the company and as to the great demand for the goods manufactured by it. The reason given for this shut-down was over-production. The course that followed—a very proper one—was the reduction of prices, some twenty-five and some thirty-three per cent. There was a widespread belief that the action was taken for the purpose of depressing the market value of the stocks of the company, yet subsequent events seem to establish the fact that the reason given was the true one; that, if there have been, at any time, any improper statements made by the trust officials, they were made when they represented that the prospects of the company were flourishing. Months before this action was taken by the American Steel and Wire Company that shrewd old populist, ex-Congressman Jerry Simpson, who has been the butt of ridicule of Eastern economists as well as of Wall Street plungers, predicted this very action on the part of the wire trust. On February 14, 1900, at the Anti-Trust Conference held in Chicago, Jerry Simpson said:

"Take, for example, articles of common consumption, particularly in the Western States—barbed wire and wire nails (these are the products of the American Steel and Wire Company). The enormous advance in price is causing a rapid decline in consumption; the factories and the storehouses of jobbers and retailers are filling with supplies. It is reported that in the Eastern States farmers are returning to the primitive rail fences. Hence we shall hear of the wholesale discharge of men employed by the

trust; and they being without work and without money to buy the products of the farm, will thus affect the farmers injuriously, and so on through the whole gamut of industrial activity. It is, therefore, more than probable that before many months elapse the parrot cry, 'over-production,' will be heard in the land, while the gaunt wolf of poverty sits upon hundreds of thousands of thresholds."

With what wonderful quickness Jerry Simpson's prophecy has been fulfilled!

The truth, then, is that if trusts are run as monopolies instead of being economically an advantage to the public, they will occasion a frequent recurrence of the evils of competition. High prices will cause that which is called overproduction, namely, an excess of production over the demand at the prices quoted, and we will also have shut-downs and low wages, men out of employment, and all other forms of industrial wretchedness. These evils will come whenever trusts are run upon the monopolistic principle and whenever prices are put up or kept up above the point of fair profit.

But a lowering of prices always causes an increased demand and an enlarged output, which in turn mean more employment for labor, which itself results in higher wages, which again means an increased purchasing power on the part of the wage-earners, and a further demand, and a still greater abundance of production, as well as a larger market for raw materials, higher prices for farm products, an increased need of agricultural implements, a larger demand for farm labor, higher wages, and a further enlargement of the consuming and purchasing powers of the farmers and planters and farm laborers for manufactured products; and so on, in one endless chain of plenty and prosperity. Thus, whatever tends to lower prices, provided it is the result of cheaper production, of labor-saving, and not of arbitrary wage-reduction or arbitrary depression of prices

of raw materials, means the industrial welfare of all classes, producers and consumers, employers and employees, manufacturers and farmers, old and young, rich as well as poor. It is apparent that there can be no beneficial lowering of prices unless there is a cheapening of the cost of production. It has been shown how trusts can, generally, produce much more cheaply than individual competitive producers. Low prices cannot exist unless there is cheap production. The cheapest production makes possible the lowest price. The cheapest production, provided it is not the result of the degradation of human labor, and if followered by the lowest price, means the greatest prosperity. The proper policy, then, to pursue with reference to trusts is to endeavor to obtain all their economic advantages and yet, by all means, to guard against monopoly. If the monopolistic element can be wholly eliminated from them, they may become one of the greatest industrial boons in the world's history; if they are, in practice, monopolies, even though not essentially so, they are the greatest curse that has fallen upon the race since it was condemned to eat its bread in the sweat of its face. If it is not possible to have trusts without monopolies, trusts must be destroyed, or else industry will be ruined and liberty overthrown. Human nature is unable to exercise unrestrained power with fairness. Such power is sure to be abused and to be applied tyrannically. The power over industry is the greatest of all powers. If you can control a man's livelihood, you control his life. If you control his opportunities for work, you control all his energies and faculties. If you control these things, you control all his liberties; he will not long retain liberty of thought or liberty of conscience. If the trusts of to-day are really monopolies—if they are in effect monopolies—then have we lost our

liberties; then in place of four million slaves, there are eighty million. Are we to have a nation of white slaves?

The pertinent inquiry, the real turning point, the crux of the whole trust problem, is: Are trusts monopolies? Do trusts have this exclusive power of sale over products? Can they arbitrarily fix prices? If so, that power must be overruled. There are many who insist that trusts are nothing but great industrial organizations, differing from earlier organizations only in being larger. These men, among them Geo. Gunton, argue that trusts do not abolish competition but intensify it. They assert that combination has not in the past destroyed competition; that it has seemed to do so, but, that, in fact, each death of competition has witnessed a revival of stronger and more keen competition. They point to the cotton industry as an example. At one time all cloth was woven by hand-loom. Power-looms were invented; they could be used profitably only in factories where the specialization and division of labor could be secured to a greater extent. They necessitated greater combination of capital. They manufactured more cheaply and they drove out the workers of the hand-looms; but there soon sprang up competing power-loom factories whose competition was more widespread and more keen than those of hand-loom weavers. Small factories under individual owners were succeeded by larger factories under corporate control. The more it was possible to centralize and combine, the greater were the centralization and combination; but the fewer the competitors, the more fierce was the competition and the lower was the price of the manufactured article. All industries show larger and larger, but relatively fewer and fewer concerns. It will be conceded by nearly all that the fewer and the larger the competitors, the keener the competition. It is a battle between giants. "But," say the millions who are now

studying trusts, "is not the battle of the giants for supremacy? Is it not in every case a fight to the finish? When the war of competition is over, is not one of the competitors either killed or subdued? Is he not destroyed or annexed? In any case is there not one less? And are not things tending inevitably and rapidly to a condition when, in every industry, there will be either only one establishment, or else one establishment so great that it will dominate the whole industry and have a practical monopoly?"

We have already clearly shown that under the competitive system the demand for cheaper production tends to make the cheapest the biggest, and tends ruthlessly to destroy the enterprises that are not the cheapest. The ultimate survival of none but the cheapest is the irresistible movement of competition. Monopoly is thus the goal of competition; or as Mr. Henry D. Lloyd, the author of *Wealth Against Commonwealth*, has so sententiously expressed it: "*Monopoly is business at the end of its journey.*" The peculiarity of a trust is its attempt to consolidate all competitors. This, indeed, seems most clearly to distinguish trusts from all other large concentrations of capital. There appears, indeed, to be a difference in character rather than in size, viz.: that trusts are not merely great enterprises for the purpose of securing economical and cheap production and distribution, but "octopi" that endeavor to reach out and gather in *all* industries in order to kill *all* competition and to control *all* the means of production in those industries, and to obtain *full* possession, when possible, of *all* the sources of raw materials and *all* the cheap means of distribution. It is this attempt at monopoly, and the apparent success of the movement, that makes the world to-day apprehensive. It is not to be wondered that the people tremble in the pres-

ence of the power of trusts. It does appear, often, as if they had a monopoly, as if we were utterly at their mercy, as if they could unduly raise or depress prices and unduly limit production and give us any quality of product they choose. Before running from this overshadowing phantom let us see to what extent any trust yet formed has acquired sole power or full control.

In Chapter I, concerning the size of trusts, we have mentioned the extent of the control of various trusts over certain fields of industry. The most striking fact is that, with few exceptions, each trust controls the large majority of the plants in its industry; but it is somewhat significant that no trust has for any length of time had full control of any field of industry. The American Sugar Refining Company, better known as the Sugar Trust, many years ago, was said to control ninety-eight per cent of the sugar trade, a proportion of it that was certainly sufficient to dominate the entire business and to enable it absolutely to control production and arbitrarily to fix prices, if any trust has such power. In 1898, two great refineries, one belonging to the Doschers and the other to Arbuckle Brothers, went into operation and the competition has certainly been keen enough since that time. The Standard Oil Company is popularly supposed to have, or to have had, a complete monopoly of the refining of petroleum, but it is stated on good authority that there are to-day at least one hundred refineries not under the control of the Standard Oil Company. Attention has been called in Chapter I to the gigantic consolidations or trusts in the steel business, but it is significant that there are at least three of them of enormous capitalization. The several tobacco trusts mentioned in Chapter I are, in reality, only branches of one trust; but this month (June, 1900) bids fair to see the launching of a projected company, capitalized at $30,-

000,000, which will be a *bona fide* and powerful competitor.

Monopoly, the sole power to sell, is the power to fix prices. Let the sole power to sell be permanent, let the thing over which the power exists be a necessity, and it is as certain that a price greatly in excess of the cost of production will be charged as it is that human nature is selfish and that in making an exchange each person will get all that he lawfully can. If the monopoly be not permanent, if the article affected by it be not an absolute necessity, the tendency to charge an undue price will vary in proportion to the ability of the consumer to wait till the time when others can produce and sell the article, to the ability of competition to spring up quickly, and to the possibility of procuring some article as a substitute. If trusts are monopolies they are absolutely certain to raise prices. Let us, therefore, consider the power of trusts over prices, for our investigations in that subject will help us to answer the question: Are Trusts Monopolies?

CHAPTER VI.

PRICES AND POTENTIAL COMPETITION.

If prices are not to be put up, what is to keep them down as trusts spring up and continue? Trusts are formed to destroy competition. When active competition is destroyed,—when you have cut this string on your hitherto captive balloon of prices, will it not soar higher and higher?

Trusts are not, never have been and never can become complete, permanent, absolute and oppressive monopolies. They cannot for any great length of time charge exorbitant prices. But what is the force that will tend to keep trust prices from becoming unduly high? What is to save us from the dangers of extortion by trusts? Is it the mercy of capitalists? Is it possible that sympathetic motives cause their bosoms to heave and swell like the ocean? Not at all. The trust owners are the heads of business concerns. They are engaged in them not as philanthropists, or as managers of charitable aid societies. They may be philanthropic and charitable, but they believe these things should be divorced from business. John D. Rockefeller has given millions to the cause of education, but, probably he would not make any claim that the Standard Oil Company was run for the good it could do, and probably he would not consider it a bright idea to try so to run it. The trust problem would quickly settle itself if business motives did not prevail. Trusts would soon go to

the region of faded hopes. No, the relief of the people from extortion by trusts and from excessive prices, will not come from the unselfishness of trust directors, but if it comes at all, it will come either from their selfishness, or from the people rising in their might and asserting their power. It will not be because the hearts of trust magnates are bleeding for the people, but because they fear that, financially, they will be bled if they attempt to charge an unduly high price. Self-interest is a corrective and a remedial agency for monopoly. Self-interest seeks the greatest profit; but the greatest aggregate profit is not obtained by asking the highest price, nor even generally by asking a high price. A significant drop in the price of one trust product has recently occurred. Much has been said about the increase in prices of the products of the American Steel and Wire Co., such as wire nails, etc. In the month of April of this year, prices on those goods were reduced between $18 and $22 per ton or about $1 per keg on nails, a cut of from 25 to 33 per cent. The cause was said to be over-production. In other words, at the high price the trust was unable to sell all its products. It could make more money at the lower price. Doubtless we have for a time been overcharged by this trust, but such extortionate prices cannot be maintained, and we sincerely believe that a few experiences of this kind will teach even trust magnates in general that low prices mean large aggregate profits.

High prices do not pay because they breed competition. A trust may have succeeded in acquiring control of an industry, in abolishing or destroying its competitors, in having a practical monopoly, that is, in having all the trade, all the factories, and all the men experienced in the manufacture. Yet it cannot raise its prices very much without giving birth to new competition, losing a part,

if not all, of its trade, and rendering its factories and business less valuable. There is at least one thing in which there is no monopoly, and that is trusts themselves. Any set of capitalists can form them; and there is capital in abundance,—idle capital in abundance. The lessening rate of interest proves this. One of the great questions of the present day that is forcing itself upon the minds of civilized people, is where openings are to be found for the profitable investment of saved up wealth, that is, of productive capital. For over twenty years there has been a diminishing return upon all classes of investments, and the prices of first-class securities have been constantly getting higher. The interest rate has been lowered; government bonds that yield but two or three per cent sell above par; loans upon bonds and mortgages of sufficient security can be obtained with ease at four per cent; banks are troubled with a plethora of money.

Capital is always on the lookout for investments. It is the most intrusive thing in the world. It is the most mobile. It is a thing without a country. It is not bothered much by distance or frontiers. It is international. The "Great West" of our own country was built up largely by England's capital; so was Australia. The Boer war is the result of English development of South Africa. United States financiers have lately loaned $25,000,000 to Russia. All the nations of Europe have acquired spheres of influence in China and colonies in Africa, into which their capital will flow. Uninvested capital seeks investment. Invested capital dreads competition. Its most effectual, its only permanently effectual, way of hindering competition is in keeping down the prices of its product. There is then a great latent competition,—*a potential competition*,—a competition which is sure to spring up if prices become extortionate. Trusts have not

stifled competition; they may stop it among the persons who form the trusts; they may, indeed, gather into one union all the productive agencies of a certain industry existing at one time, but they cannot monopolize the vast capital of the world or the people's irrepressible and illimitable energy.

Existing trusts have been greatly affected by this potential competition. At the annual meeting of the Glucose Sugar Refining Company, which was organized in August, 1897, and which is capitalized for about $37,000,000, and which controls nearly all the glucose sugar refineries of the country, its president said:

"There is not at this time a bushel of corn being ground by any concern except those of our company. We do not intend to pursue the policy of making spectacular profits in the beginning, and dwindling at the end. We are in business for a long pull. For instance, on a ten-year run we might have raised prices, made $5,000,000 the first year, $2,500,000 the next, $1,000,000 the next, and down to nothing at the end of ten years. It is better business to be moderate and earn $2,000,000 a year for ten years, which would be $20,000,000 in profit, against the loss of $10,000,000 the other way. We did for a short time make the mistake in the beginning of putting the price too high, but it did not last long. If we had maintained that policy, we would have sixteen or seventeen competitors against one as it is now."

Ex-Speaker Reed, in a recent article on monopolies, among other things, said:

"A good many years ago a wise old manager in my district told me the secret of success. I said to him: 'You are the only man who makes these things. You can demand your own price.' Said he, 'I am trying every minute to make these goods cheaper and sell them cheaper.' 'Why so?' 'I am the only man,' he replied, 'in this business and I want to stay so. If I raise the price, I would have a boom, but I would lose a business. In the long run business is better than boom.'"

The Standard Oil Company may be cited as the typical trust. It is the oldest and possibly the most powerful. It

has had some, but relatively little, competition. How has potential competition affected it? What has been the tendency of the prices of the Standard Oil Company? The following table shows the price of the crude oil at the wells, and of the refined in New York for export, also the difference between the crude and the refined, that is, the cost for refining for each year from 1870 to 1897:

AVERAGE ANNUAL PRICE PER GALLON IN CENTS OF REFINED AND CRUDE PETROLEUM.

Year.	Crude at Wells.	Refined in New York.	Difference.
1870.....	9.19	26.35	17.16
1871.....	10.52	24.24	13.72
1872.....	9.43	23.59	14.16
1873.....	4.12	17.87	13.75
1874.....	2.81	12.98	10.17
1875.....	2.96	13.00	10.04
1876.....	5.99	19.16	13.17
1877.....	5.68	15.44	9.76
1878.....	2.76	10.76	8.00
1879.....	2.04	8.08	6.04
1880.....	2.24	9.05	6.81
1881.....	2.30	8.01	5.98
1882.....	1.87	7.39	5.52
1883.....	2.52	8.02	5.50
1884.....	1.99	8.15	6.16
1885.....	2.11	7.93	5.82
1886.....	1.69	7.07	5.38
1887.....	1.59	6.72	5.13
1888.....	2.08	7.49	5.41
1889.....	2.24	7.11	4.87
1890.....	2.06	7.30	5.24
1891.....	1.67	6.85	5.18
1892.....	1.32	6.07	4.75
1893.....	1.52	5.24	3.72
1894.....	1.99	5.19	3.20
1895.....	3.22	7.36	4.14
1896.....	2.83	6.98	4.15
1897.....	1.87	5.91	4.04

In studying these figures, certain facts should constantly be borne in mind. In 1870 and 1871, the quality of the oil was poor; its production was in the hands of a large number of independent rivals, and the refining of oil was not a profitable business. The first alliance between the Standard Oil Companies of Ohio and Pennsylvania and the Pratt Co. and the Atlantic Refining Co. was in 1871 or 1872. This alliance may be considered the nucleus of the trust. For several years after the alliance was formed there was strong competition, although it can hardly be questioned that the Standard Oil Companies and their allies had the advantage of railroad discrimination in their favor and of special privileges. The date of the formal organization of the Standard Oil Trust is 1882; but the control of the trade had undoubtedly been secured prior to that time. The subsequent incorporation was but a change in name. An examination of the figures for this period from 1871 down to 1897, shows: first, a decline in the price of the crude; second, *a greater decline* (in amount) in the difference between the price of the crude and the refined; that is, the charge made for refining and transportation has decreased. The decline was generally uniform and progressive from 1870 down to 1882, the date of the formal organization of the trust. That year the price of the crude was 1.87, the price of the refined, 7.39, the difference, or charge made for refining and transporting, 5.52. In 1897, the price of the crude is again 1.87, but the price of the refined has gone down to 5.91, the difference between the cost of the crude and the refined, that is, the charge made for refining and transporting, being 4.04. With the exception of two years, 1893 and 1894, the price of the refined was never so low as in 1897. The price of the crude was relatively low in the years 1893 and 1894. The difference between the cost of the crude and

the refined, that is, the cost of refining and transporting, was never so little as in 1897, except in the years 1893 and 1894. Of course, there have been enormous savings in the cost of transportation, and wonderful inventions and improvements in the processes of refining, which must have made the cost to the trust much less; but one is forced to the conclusion that, all in all, coupled with a wonderful improvement in quality, the Standard Oil Trust has not only cheapened the cost of oil, but has lowered the price charged for refining and transporting. George Gunton's deductions from his figures, which are substantially the same as those given above, are as follows:

"The petroleum industry began in 1859. From then until about 1871 illuminating oil was produced by a large number of concerns. The oil was very poor and dangerous to use. From 1863 inclusive, when oil production was becoming an established business and full statistics were available, until 1871, the price in gold fell from 30.7 to 21.7 per gallon, or 29$^{9}/_{10}$ per cent. From 1871 to 1880, under the Standard Oil Company, the price fell from 21.7 to 9.125, or 58 per cent; and from 1880 to 1898 (the price in 1898 being 5.7), during which period the industry has been under the control of the Trust, the price has fallen from 9.125 to 5.7, or 37$^{6}/_{10}$ per cent. The production of oil has increased from 9500 barrels in 1859 to 35,165,990 barrels in 1897."

The annual consumption of oil is about a billion gallons, and a saving of two cents on the gallon, which is about the decrease in price between 1882 and 1898, the era of the formal Trust, would be $20,000,000 for the year 1898 alone. If we compare that year with the year 1871, when the alliance was made between the Pratt Co. and the Atlantic Refining Co. and the Standard Oil Companies of Ohio and Pennsylvania, we find a reduction of sixteen cents in the price, which would make a saving or difference of $160,000,000 on the output and product for the year 1898 alone. Whether, indeed, even at these prices, the

Standard Oil Co. is not receiving an undue profit and charging an undue price, may be a question; but it is rather a difference of opinion as to what constitutes a fair profit than it is a question of fact. If in explanation it be said, on the other hand, that the Standard Oil Company has some active competition, then we are forced to the conclusion that, if this great gigantic industry cannot become a monopoly, no other industrial trust can. If the feeble active competition which the Standard Oil Trust has had, is not the cause of lowered prices, then we must ascribe it to that great latent potential competition,—that fear of active competition, which keeps prices within the limits of reasonable profits, just as the fear of death deters the would-be murderer from carrying out his villainous designs.

However powerful trusts may be, if they raise prices beyond the point of fair profits, sooner or later (and the higher the prices, the sooner) they will meet with competition. Weak competitors may go down before them, but there is one thing at least which trusts cannot monopolize, and that is trusts themselves. Others can obtain the capital, if there is a fair measure of profit in its investment, and can form a rival trust. Why is it that that gigantic trust, the American Sugar Company, with its capitalization of nearly $75,000,000, has had such strong competition with the Arbuckles and the Doschers? That competition certainly would not have arisen had there not been a belief that in the business there was an enormous profit. It probably would never have come into being had not the Sugar Company for many years paid enormous dividends upon its profusely watered stock,—seven per cent upon its preferred and twelve per cent upon its common. There is, indeed, every reason to believe that the competition was the result of an excessive price on the part of the

Sugar Trust. That competition came into being in 1898. The table of prices for that year show that the difference between the prices of raw and refined sugar, that is, the charge for refining it, was .730 of a cent per pound, but the year before the competition began it was .946 of a cent per pound, a difference of .216 of a cent per pound. This may seem too trifling for consideration and an overcharge so small as to be unnoticeable,—in no sense an extortion. It is true that the burden imposed by it upon any one individual would be so trifling as to hardly call forth a complaint, but the aggregate amount on the sugar trade of the country would be so great as to tempt capital immediately to invest in that industry if it were certain those prices would be maintained. One-tenth of a cent per pound on the sugar consumed in the United States would mean almost $3,500,000 per annum, and .216 of a cent would mean practically $7,000,000 per year. If the Sugar Trust were charging this small sum in excess of a fair profit, would it not call forth competition, and is it not proper to infer that that was at least one of the reasons that did call forth the competition it has met with? It should be noticed that in the year 1896, with raw sugar higher in price than in 1897, the difference between the cost of the raw and the selling price of the refined was .908 of a cent per pound; in 1895, it was .882 of a cent, and in 1894, .880 of a cent,—the raw in the last two years being, however, at a lower price. In other words, for several years prior to the Arbuckle and Doscher competition, the charge for refining had steadily increased,—and competition resulted.

We have seen that the cheapest producer naturally becomes the biggest producer *if free and fair trade exists.* Theoretically, the cheapest seller is bound ultimately to become the sole seller,—a monopolist. If special priv-

ileges are refused and fair competition is compelled, monopoly can be acquired only by the lowering of prices. Under such conditions of no special privileges, what are the means of the continuance of the monopoly of the cheapest, and how long will it continue? Bourke Cochran, in a memorable address on trusts, has answered this question substantially as follows: "Only so long as it continues to produce and to sell most cheaply, and so long as it does, it is a blessing to the consumer and a stimulus to industry." The eloquent orator was most careful to point out and make clear that this was true only where competition was free and where no competitor had special privileges. If to this he had added that to ensure this limitation to monopoly, it was necessary not only that competition should be free, but that it should be fair,—that the powerful and highly capitalized should not sell their goods for less than cost in one or even in all localities in order merely to undersell his weaker competitor, knowing that the competition would soon work the ruin of his rival while he, the powerful competitor, could stand it either because of his ability to make a profit on sales in some locality where this ruinous price was not charged, or because of his greater capital enabling him to stand the loss longer,—if this had been added to the other *provisos* of Bourke Cochran, it would undoubtedly be true that a monopoly not based on or propped up by special privileges can be permanently maintained only in case it is economically superior, that is, in case it produces and sells at the cheapest rate.

The experience of the last ten years with trusts, as they actually exist, amply and conclusively proves this. Under present conditions, if combinations are to continue and to meet with success, it must be by better and cheaper service to the community. Competition can be permanently stopped only by continuously selling or serving at a rate

or price lower than others can afford to sell. Even special privileges and favors only delay the time when competition shall assert itself, for the people will rise and sweep away the privileges as soon as they realize their existence. If any trust, for any appreciable length of time, exacts an undue or even a liberal profit, new capital will be invested in that industry, another trust will be formed, and competition will operate with a greater intensity than was possible on a smaller scale. The trusts that have continued for any length of time are those which have conducted their business on the theory of moderate margins of profit, relying upon a large output produced cheaply as a result of all the savings that can be obtained by the use of large capital intelligently administered, and knowing that in this way they could obtain a greater aggregate profit. The only trusts that have succeeded or that can succeed are those thus managed. The failure of innumerable trusts, "corners," and "combines" conclusively proves this.

It will be insisted that the prices of nearly everything controlled by trusts have advanced, in recent years, to a large extent; that sugar and oil, at the most, are only exceptions, and doubtful ones at that. Byron W. Holt of the New England Free Trade League, has said:

"Out of four hundred trusts which I have enumerated, I do not believe that ten have lowered prices. In fact, I know of none, except one or two, and these have depreciated the quality of their product. In one such case the prices are held so high that there are heavy imports of competing goods, although there is a duty on them of nearly 100 per cent. In nine cases out of ten trusts have raised prices—often more than 50 per cent. *That much of the present rise in prices is due to general economic conditions is probably true.* On the other hand, it is just as true that, had there been no tariff duties, the rise in prices would neither have been so general nor so great."

The wisdom or folly of the free trade suggestion will

be considered later. At present the fact of importance is the increase of prices, and also the admission contained in the words that are italicized.

In considering the recent increase in prices, one should not overlook the admission made by Mr. Holt,—"that much of the present rise in prices is due to general economic conditions is probably true." The prices of sugar and oil are those entitled to the greatest consideration because extending over a longer period of trust control. We should be very cautious in making general deductions from the prices of other products which have within the past six or seven years come under trust control, because the majority of our trusts, as was seen in Chapter I, have been formed since the great financial panic of 1893. They have been the accompaniment of the revival of industry since that time. The panic of 1893 witnessed a complete collapse of prices. It was absolutely impossible to obtain for anything its reasonable value as measured by cost of production. This fact, although of almost universal knowledge, is lost sight of by the majority of people in considering the prices of articles produced by trusts. The prices of most articles made by trusts have advanced enormously since 1893, but it is absolutely unfair and incorrect to attribute the advance to industrial combination. The rise of prices is chiefly the result of the universal demand, and it has been as great, if not greater, in lines where no combinations existed. For example, it is said that up to a year ago pig tin had advanced seventy-five per cent; steel rails, ninety-four per cent; steel plates, one hundred and twenty-seven per cent; refined bar iron, eighty-two per cent; and yet at that time there were no trusts in these industries. There are, perhaps, some products the prices of which have been unduly raised and maintained, but in these cases, if any exist, it is believed that upon investigation it will be

found that the trusts have been able to obtain these prices by reason of special privileges, such as prohibitive rather than protective tariffs, or by reason of possessing patents upon labor-saving machines, or by virtue of unjust discriminations in their favor by railways and other agencies of transportation, or by obtaining the ownership of natural monopolies. The important point for us to consider, at this stage of our study of the question, is that there is no proof that the mere aggregation of capital into gigantic trusts or combinations has resulted *permanently* in prices that are higher than would be properly occasioned by the increased demand consequent upon the revival of industry. If this point can be established, it is of great importance, because the evils of trusts, so far as prices are concerned, will then be shown to be either merely temporary, or else not inherent in trusts themselves but the result of special priveleges and of the practice of unfair methods of competition; and the remedy for these evils, which will naturally suggest itself as being perfectly efficient and wholly sufficient, will be the abolition of all special privileges and the prohibition of unfair methods. It is not inappropriate here to make brief mention of the prices of tin plate. Tin plate promises to be an issue in the campaign against trusts as important as it has been in the campaign for a protective tariff. The American Tin Plate Company will be cited as the typical trust, and much will be said of its extortions and of its monopolistic powers. The impression has been general that this tin plate trust has unduly advanced the prices of its products and has extorted large sums of money from the American public, by whose liberal policy it has been fostered and developed. In a subsequent chapter, in which the effect of the tariff upon the trusts is set forth, we will give some study to this industry and its prices. But it is sufficient now to say: first, that it is by no means

certain that even the tin plate trust has extortionately or unduly raised its prices; and, secondly, that assuming that it has, its power to do so is due, perhaps, in part, to an excessive tariff which keeps out foreign competitors, and in part to its having made a contract with the producers of tin plate mills and machinery whereby for a considerable period of time no one else can obtain the necessary machinery to conduct the enterprise. If that is true, it is so clearly a contract in restraint of trade, so manifestly a conspiracy against the public, so plain and bald an attempt to monopolize, that it should be punished as a crime, and every means should be taken to prevent such a company from carrying on business. That kind of a trust cannot be crushed too quickly or too effectually.

We have pointed out that potential competition is one of the remedies—a partial remedy—against extortionate prices. We have shown how invested capital will shrink from calling into active competition the latent competition of uninvested wealth. It is unqualifiedly true that no monopoly that exacts high prices can permanently exist against potential competition, *provided there are no special privileges given to the monopoly and provided there is fair competition,* but the great difficulty is that potential competition cannot prevent *for all the time* a considerable amount of extortion. The time that is required to enable the potential competitor to establish a business and become an active competitor may be a period of extortion by the monopoly. Potential competition may tend to keep prices down; but, although it is doubtless a remedy for any prolonged and continued extortion, it is quite as certain that it cannot prevent occasional high prices. As men often ignore or forget what is their self-interest, they may, and, doubtless, not infrequently do, raise prices considerably higher than that which will afford a fair profit; and

it is possible that in some instances they have kept prices for a long time slightly higher than the prices that represent fair profits, and at times have raised them almost to the point of extortion.

We cannot wholly rely on the self-interest of men to keep them from doing that which is opposed to their best interests; for selfishness and greed often overcome one's sense of self-interest, and selfishness and greed are short-sighted. Self-interest is opposed to intemperance and to dissipation and to everything that is immoderate; but how many men we find burning the candle of life at both ends. Nor can we count on self-interest saving us from business follies. Self-interest should teach every man to treat his horses gently and kindly, to care for them and to protect them; but self-interest so frequently fails in this that we have to have societies for prevention of cruelty to animals. Self-interest should teach the parent to be kind to his child and to educate and to train him for future usefulness; but we have to have societies for the prevention of cruelty to children and laws which authorize us sometimes to take the child away from the parent. Self-interest should teach us, as a state, to husband our resources; but we have seen our timber lands denuded of their trees, and as a result many of our streams, which were once navigable, are now running shallow. That "honesty is the best policy" is an old adage; but men forget this maxim concerning self-interest, and our prisons are filled with thieves and burglars and embezzlers. Self-interest is, indeed, a powerful influence in affecting men's conduct, but the weakness of it is that too often our selfishness makes us blind to our real self-interest. Because of this, trusts have not infrequently been guilty of temporary exactions, pending the establishment of a competitive industry which, because of its magnitude, will take a long time to get under way.

We have recently had a most striking example, according to the reports of our daily papers. In the issue of the *New York Herald* for March 20, 1900, it is stated editorially that Congress is anxious to build a number of warships, but that the price of armor plate has been so unduly advanced and is at such an extortionate figure that many of the members of Congress are unwilling to pay the price asked by the monopoly that has control of the industry. The editorial states the alternative thus: There is only one thing for Congress to do—pay the price asked, or fail to build the warships. It cannot obtain the armor elsewhere. *If it were to establish an armor making plant of its own, it could not get it running for two years. We must have battleships without delay, therefore we must pay the price.*

Another instance of the temporary monopoly which a trust may have—a monopoly which, while it continues, may be most merciless—is the American Ice Co. This company, having bought out the Knickerbocker Ice Co. and the Consolidated Ice Co., that is, having bought about 90,000 shares of the stock of each company, there being but 100,000 shares in each, and having made contracts with all owners of artificial ice plants in the vicinity of New York City to take all their surplus, and having obtained all the available supply which could under ordinary circumstances be brought to the New York market, and having also obtained special docking privileges of an almost exclusive character,—proceeded to put up the price of ice far in excess of any increase in the cost of harvesting it, resulting from the short crop on the North River. The price was raised one hundred per cent; that is, from thirty to sixty cents per hundred. The facts connected with this transaction are of great importance, for they show that we cannot wholly rely on what is truly for the self-interest of the trust to protect us from extortion; that the trust can

actually for a time be an extortionate monopoly; and yet that publicity is sure, eventually, to break down the most powerful monopolies. The raising of the price of ice by the American Ice Co. occurred early in May. As has been said, the price was doubled—an extortionate exaction. There seemed at first no possibility of elsewhere obtaining a supply of ice and no means of obtaining a reduction of price; but the institution, by Attorney-General Davies, of legal proceedings to procure the dissolution of the trust, and the commencement of criminal actions against its organizers, and a general publicity of the affairs of the company in the daily press, and the starting of a few competitive ice producing plants, have caused a reduction in the price to about the former level. On the 22d of May, *The New York World* editorially said:

"The sun of publicity will soon melt the ice trust."

On the first day of June, *The Rochester Democrat and Chronicle* stated:

"The ice trust in New York has dropped prices to forty cents a hundred (this from sixty cents; last year's price, thirty cents) and is making an effort to get back its old customers. Most of them have made contracts with independent concerns and the punishment of greed promises to be speedy."

But what inconveniences the people of the metropolis had to suffer before the price was reduced, and what methods were adopted to suppress the weak competitors that arose, may be gathered from the following extract from *The New York Herald* of June 6th. Though a long quotation, it is well worth reading, for it sets forth the facts of the fight against the ice trust, which make the case in many respects a typical one. This article is really an epitome of trust methods, and it also shows fairly well both the strength and the limit of monopoly powers:

"ICE PRICES BEING HAMMERED DOWN.

INROADS OF INDEPENDENT DEALERS FORCING AMERICAN COMPANY TO DESPERATE MEASURES TO DEFEAT THEM.

DECOY COMPANIES MAKING BIG CUTS.

FORTY, FIFTY AND SIXTY-FIVE CENTS CHARGED IN THE SAME APARTMENT HOUSE.

BY THE SAME ICEMAN, TOO.

ATTORNEY-GENERAL AND CONTROLLER DETERMINED NOT TO BE LED INTO ERROR.

It now appears that the American Ice Company has troubles other than those of a legal nature. While it has been fighting the attempts to make public its stock book, independent dealers have been getting such a foothold throughout a large section of the city that the American Ice Company has been compelled to cut the sixty-cent price to meet the opposition.

The situation is unique. The American Ice Company has kept several of the small concerns that were taken into the fold busy in meeting the outside icemen. These small companies run their old wagons and deny connection with the American Ice Company, but in reality handle its ice. It is the constant endeavor of these icemen to get customers away from the few independent dealers. This has been done wherever necessary by deeply cutting rates.

Apparently this method of doing business is not confined to any one part of the city. Wherever the independent icemen have obtained customers the American Ice Company has met the reduced prices. The sixty-cent rate has been rigidly maintained at all of the American Ice Company's offices, and nobody has got cheaper ice who has not worked to get it. As a consequence, there is many an apartment building in Harlem and on the west side where the families on all the different floors are paying different prices for ice. In some instances, too, the variations are considerable.

PRICES VARY IN SAME HOUSE.

In one house that was visited yesterday the family on the first floor paid forty cents, the family on the next floor sixty-five cents

and the family on the top floor fifty cents. The two extremes were charged by the same iceman.

This rate-cutting, altogether irregular, has given rise to several rumors that the American Ice Company, fearing the public wrath, was lowering its sixty-cent rate. There is evidently no other foundation for the news, since all the regular offices of the American Ice Company quote ice at retail to families at sixty cents—or sixty-five cents if there is any good excuse for such a charge. Any one who cares to get ice cheap has but to patronize one of the independent dealers and the American Ice Company will, through one of its decoy companies, meet the cut.

This is not in all cases easy to do, for the independent companies are so rushed with business since the agitation began that they cannot get wagons to haul the ice that is ordered. It has been a bonanza for the outside concerns. Half a dozen of the smaller independent dealers are now planning to manufacture ice for themselves, and will without doubt make money out of the venture if the American Ice Company does not lose heart and do away with the sixty-cent price. One dealer in West Seventeenth Street is making preparations to manufacture two hundred and fifty tons of ice daily.

GETTING ICE IN NEW JERSEY.

Pending the construction of ice-making plants the independent dealers are buying ice in Jersey City and carrying it across the ferries in their own wagons. There are two companies in Jersey City that sell ice shipped in from ice houses on lakes and ponds in Pennsylvania. The ice comes over the Pennsylvania Railroad, and this led some of the dealers to suspect that the railroad company was really fathering the scheme.

At the docks controlled by the American Ice Company the price (wholesale) charged outside icemen in New York is $7 a ton, or thirty-five cents a hundred pounds. *These docks are practically all in the city, for but two independent dealers, seemingly, have facilities on wharves.* One of these concerns, Montgomery's, is on the North River, and the other, Solomon's, is on the East River.

Instead of buying in New York, the outside icemen cross the river to Jersey City at 1 o'clock in the morning and buy ice there. *They pay* $3 *a ton instead of* $7, but when the ferriage is added and an allowance is made for the driver's time and for melting, the cost of the ice runs up to $4.25 a ton. With this Jersey ice the

independent dealers have already forced the American Ice Company to cut its sixty-cent rate in almost every street in the city."

Two days later the prevailing rate was forty cents; a week later it was reported to be thirty cents. Doubtless the reduction was due both to the legal proceedings instituted against the trust, and also to the fear of competition next season as a result of the publicity given to the trust's profits.

Potential competition is also an imperfect remedy, because, when called into activity, it so frequently is the struggle of the weak against the strong. The competitors are not on a level footing, and the contest, besides being unequal, is unscrupulously conducted.

There is competition and competition; first, that competition which seeks to attract purchasers by better goods and lower prices, but at prices that mean fair profits and a continuance in business; and, second, that competition which lowers prices below the fair profit mark, and the purpose of which is not to secure custom for the one so lowering the price, but to drive it away from a competitor. The one form of competition is healthful rivalry; the other is a war of extermination. One is the life of business; the other its death-blow. Competition favors the strongest competitors. The big usually survive. It is the survival of the biggest rather than the fittest that frequently results from competition as it is practiced. "Cut-throat" competition is, in no sense, a practice peculiar to trusts. But when employed by trusts it is a menace to the public, for the great trusts have the power to withstand the effects of competition longer than their small rivals. In so far as this is the result of their ability to produce or market more cheaply, which is frequently, if not generally, the case, we cannot find fault with the competition, for the community wants cheapened production, provided it is not secured by

a degradation of the working classes; and the community wants lower prices, provided they are not inconsistent with fair profits. But competitors do not confine themselves within these limits. They are merciless in their methods. Prize-fighters do not hit below the belt, but the methods of business competitors are usually more brutal than prize-fighting. With business competitors, it is war to the death. Trusts are probably no worse than individual competitors in this respect; but their powers are greater, and the result of acts done by them is more injurious than when done by feeble individuals.

In an earlier chapter we showed that competition was the mother of trusts. Trusts are born of competition, conceived for the purpose of killing competition; and yet they use competition as a method of exterminating competitors. This paradox calls to mind the story of the minister who once preached two sermons as a candidate for a certain church which was without a pastor. His morning discourse was from the passage: "Ye are of your father, the devil." His evening text was: "Children, obey your parents." When it comes to the struggle of getting business or killing off a rival in trade, the methods of the trust reflect credit upon its mother, cut-throat competition. A good deal depends upon whether the new competitor is another giant trust or a struggling individual enterprise. If it is a case of rival trust, there may be keen and intense competition; but if it is a case of the trust against the weak and struggling individual producer, there will be the rankest of unfair methods. When Trust meets Trust, "then comes the tug of war;" but when the Trust meets an individual competitor, then the Trust conducts itself like a thug of the slums.

Small competitive concerns will spring up more quickly than will great ones. Oftentimes the results of careful in-

dividual attention to a small business will offset the advantages of greater capital managed by agents and subordinates. Such new small concerns can succeed against extortionate prices, and sometimes even where prices are at the fair profit mark. But what do they meet with from trusts? Cut-throat competition. What is the action of trusts in such cases with regard to prices? It is a lowering of them in the particular locality where the small hand of competition has arisen,—lowering them below the fair profit mark, lowering them sometimes below actual cost of production, lowering them at any rate to a point where the small competitors will eventually be driven from business. Why? Because they have dared to compete. For what purpose? In order to kill the competition and restore the old prices, or even to exact eventually, higher prices that will compensate for the enforced decrease that was made to kill competition. The community is interested in,—yes, is benefited by low prices; but it is injured by sacrifice sales, by "slaughters," by cut-throat competition. Sales at a loss soon absorb the limited capital of the weak competitor, but the loss of the trust on this fractional portion of its business is more than made up by its extortionate prices in other localities. Sometimes the trust reduces its price below cost in all localities. It is the party with the largest purse that can stand this cut-throat competition the longest, and that party is always the trust.

The kind of competition just outlined is in its nature, at least, conspiracy. It is the use of one's property not directly for one's own benefit, but for the injury of another. It violates the spirit, if not the letter, of the law against conspiracy. There should be no doubt as to whether or not it does. If doubt exists, statutes should be enacted so as to express in no ambiguous terms their prohibition of such competition. It should be declared criminal so that

the strong arm of the state could punish the wrong. Leave a struggling competitor to his remedy for damages for the injury done him, and, even supposing that he has a remedy, the expense of enforcing it, and the difficulty of showing the amount of the damages, makes any real relief impossible. The selling by an incorporated company of goods of a certain quantity and of a certain quality or cost of production in one locality at a lower or different price or on different terms or conditions than are fixed for them in any other place (difference in cost of transportation and rent and selling—local differences—being allowed for) should be made criminal, unless a *bona fide* competitor actually sells at this or a lower price in the same or substantially the same quantities. These great corporations are created by the state. Their rights to do business are derived from the people. They are supposed to serve all the people alike. They are incorporated because they are supposed to be of service to the people at large. They are subject to limitations by the popular will. Such regulations as suggested are consistent with the theory of corporations and the purposes of their formation. If trusts were forbidden by law to sell their product at any point for a less price (difference in transportation and rent and other local considerations being allowed) than they sell it at all other points—if when they reduce the price to kill one small competitor they were obliged to reduce it wherever they had competitors, this cut-throat competition method of exterminating rivals, the sole purpose of which is to obtain a monopoly and the power of extortion, would be one that would be far less frequently employed. Akin to the method of selling below cost in one locality in order to exterminate the rivals of the trusts, is the practice of the great trusts, that make many articles or many styles of the same article, to refuse to sell any of these articles to the retailer unless

he will agree to buy exclusively from them. The effect of such an arrangement is to destroy the trade of the feeble competitor who makes but one article or one style. Such has been the method employed by the tobacco trust. If these great corporations whose powers are derived from the people and who are given the right of incorporation by the people only because it is believed that indirect benefits of great value will accrue to the people, were compelled by law to sell their products to any person tendering them the price, just as common carriers are bound to serve all at the same rate,—if such a statute could be enacted and enforced,—potential competition would be a far more powerful force.

The great weakness of potential competition is, however, that it is an uneconomic remedy. Potential competition is worthless if it is never to become active competition; but in scarcely an industry has a trust been formed where the productive agencies—the factories and mills—merged into the trust did not have a capacity in excess of the consuming power of the public; and nearly all of our trusts, as has been noted, have absorbed all or nearly all of those productive agencies. If they unduly raise prices, although competition will doubtless eventually appear, yet it is absolutely certain that the potential competitor will hesitate a very long time before entering into active competition, for he knows that there is no need of new factories; and that the demand of the public will not sustain both the new factory and the old factory; and that in the competitive struggle either the new competitor or the trust will fail, or else the trust will absorb the new competitor and form a new combination, and then place the price high enough so as to recoup the loss due to the previous struggle of competition. This knowledge of the potential competitor that there is really not room for a new establishment in

the industry is also knowledge possessed by the trust managers; and knowing that, they realize that even although they raise their prices somewhat above the fair profit mark, yet there is a very powerful restraint upon the establishment of new competition, entirely independent of the restraint that springs from the would-be competitor's knowledge that, if he enters the struggle, he will be met with cut-throat competition by the powerful trust, and independent, too, of the would-be competitor's knowledge that even if cut-throat competition is not attempted, yet the trust will, when competition asserts itself, at least, reduce its extortionate prices to the level of fair profits. The mere aggregation of capital, even although that aggregation possesses all of the productive agencies in any one industry and even although those productive agencies are more than able to satisfy the public demand, probably does not in itself constitute a monopoly. It is not the aggregation that stops the establishment of new competitive enterprises, but the fact that the total capacity is in excess of the demand. The existence of a number of productive agencies having a capacity in excess of the demand is always a restraint upon competition. If they are separately and individually controlled, the restraint upon competition is probably fully as much as if they were all combined into one trust. Indeed, experience goes to show that persons would rather start new establishments in industries in which there are trusts, if they could be sure that the trust would not resort to "cut-throat" or unfair competition, for prices would be more apt to be kept stable. But the vital fact remains that, whenever in a given industry the productive forces have a capacity in excess of the demand, the establishment of new competitive concerns is not only unneeded, but there is a restraint upon it. Granting that this is as true when the various mills and factories of the industry are separately

owned and managed as when they are combined and consolidated, the further momentous fact remains that, in case of a consolidation, under such circumstances, of all the factories and mills in operation, there is the possibility, by reason of the union, of the exercise of monopolistic powers, because active competition has been restrained and, new competitive establishments being unneeded in order to supply the demand, potential competition is, therefore, a weak corrective force. When the sugar trust was known to have in its refineries a capacity four times as great as the consumption, is it to be wondered that people long hestitated about starting competing refineries, even although the sugar company for many years paid twelve per cent dividends upon its common stock and seven per cent upon its preferred, and although it was known to be capitalized for much more than its cost? Supposing the whisky trust had extortionately advanced its prices, would it not have been business folly for a person to establish a new distillery, when the whisky trust had been able to close almost six-sevenths of its distilleries and yet had been able to furnish with the twelve that it continued to operate the same output as before had been actually produced by the entire eighty that it owned? Is it not because the would-be competitor fully realizes that the Carnegie Company and the other great steel companies control mills and plants that can easily supply the average demand of the public, that so little competition springs up in that business, notwithstanding it is asserted upon good authority that the Carnegie Company, with its plants costing not more than $25,000,000, will make from $25,000,000 to $40,000,000 net profit in this one year? Is not one reason that the Standard Oil Company has so little competition, notwithstanding its dividends amount to thirty or forty millions of dollars each year upon a watered capitalization of

one hundred millions, the fact that the Standard Oil Company has ample facilities for supplying the whole country and the export trade with oil?

Yet, while there is this restraint upon competition, caused by the existence of more plants than are needed, it is a fact established by experience that sooner or later there will be men with enough daring, enough courage, and enough hopefulness to start new competing establishments. As long as wealth keeps on increasing this is bound to occur, because men will put their money into some enterprise and they will put it into that which seems to yield the greatest profits. For a time they may be restrained from putting it into enterprises which trusts appear to have monopolized, but eventually they will do so; and the higher the price charged by the trust the more speedy will be the relief of competition. But the State, through its legislature, has a right and, in fact, owes it as a duty to itself to stop even temporary monopoly; and if the only practical means of doing so is to forbid such aggregations of capital as will absorb all the productive agencies of any industry, then that means should be adopted. This is the only justification for anti-trust statutes which aim to abolish and not to regulate combination. Possibly in view of the fact that competition is bound to spring up, and that perhaps in the long run we may be gainers, it is unwise to go so far as to abolish trusts. But the evils of even a temporary monopoly are so great that the question is worthy of profound study. If, indeed, trusts that merge into one organization all the productive agencies and secure the means of supplying the entire demand, thereby restrain and hamper and repress the establishment of new enterprises, then it is possible that even publicity will not be a perfect remedy; that, while it may ultimately call competition into existence, it cannot do so to correct present evils, although

our experience so far would indicate that publicity was a speedier and more effective remedy than an appeal to the courts to enforce anti-trust laws. If aggregations of all the productive agencies, having the power to supply the entire demand, and for that reason dissuading men from entering new competitive enterprises, can acquire temporary monopoly, then the prohibition of over-capitalization and of dishonest corporate methods, and the imposition of taxation, and the fullest publicity, while they may save us from a vast majority of the evils of trusts, will not save us from undergoing for a time, at least, its monopolistic evils. It is this restraint of competition which arises whenever it becomes known that existing productive agencies are sufficient to supply the demand, and which enables one aggregation of all those agencies to be a monopoly for a time, at least,—it is this restraint which is a justification of laws against such all-absorbing combinations. It is this which makes it right for us to treat such trusts as monopolies, and to require their dissolution, and also to demand the punishment of their organizers and managers. It is this which is the basis of the New York statute against combinations and monopolies.

CHAPTER VII.

TRUSTS AND THE WAGE-EARNER.

NEXT to the accusation that they unduly and extortionately raise prices, the strongest charge in the indictment against trusts is that they have the power to reduce wages, and that when their supremacy is obtained they will exercise this power. It is said that when a trust has obtained complete control of an industry, all the men engaged in that industry will be utterly at its mercy; that there will be no competitive demand for their services by others in that industry, for there will be no others; that in just the degree that they have become specially skilled in that trade or industry, they will find it difficult to turn their energies into other channels; that they must therefore take the wages which the trust will pay, or starve,—worse than that, see their dependents starve; that they will be white slaves. It is further said strikes will lose their effectiveness, unless universal, because the shut-down of one or two of a large number of factories will be of little injury to a trust, since it can undoubtedly in its other factories produce enough to satisfy the market.

One thing must be conceded. Combinations of capital must be off-set by combinations of workingmen. If we are to have trusts of national scope, labor unions of national scope are necessary; and such unions should be encouraged rather than discouraged. If all over this country a combination of capitalists is to have the power or the

legal right, speaking either as a combination of persons or as one corporate entity, by a single notice to reduce wages, the wage-earners should have an equal right to combine to demand higher wages, and to refuse to work, and to urge and induce their fellow workmen to refrain from working, unless those wages are paid. This may be common-law conspiracy but it is common sense. The necessities of those dependent upon wages demand the existence of such organizations, and necessity knows no law. If capitalists form national trusts, let the labor unions, too, become national if possible. Then let them act together as a unit in fixing fair wages for the whole territory.

There are those who claim that the larger the concern, the greater the damage by reason of a shut down, and the greater the demoralization of the organization by reason of a suspension of work; that a strike or anything causing an interruption of business is as disastrous to a large enterprise as to a small one, if, indeed, not more so; that strikes are sure to bring into activity that which trusts dread more than any other thing, namely, competition; that they furnish the opportunity for building up a rival business; and that for these reasons among others, trusts are more apt to grant the reasonable demands of labor than are mere individual industries. We do not believe that it is true that strikes will be as effective against large trusts as against individual competitors. The latter know for a certainty that a strike means that their competitors will surpass them; while the trust, if it controls all the plants of the industry, has only the fear of a possible competition, which can in few cases become established and active during the continuance of the strike. In fact, the very existence of the strike will deter competition, because it leads men to believe that profits must be small if good wages cannot be paid. But trusts are by no means

wholly free from the influences of strikes, and they are, furthermore, in a position where they can more easily afford to pay high wages than can competitive concerns. It is to their interest to get along harmoniously with their employees, and they are so far able to recoup what they pay out as wages that the probability is that trusts will raise wages and add the increase to the selling price rather than run the risk of a strike.

To the extent that competition is diminished, an employer is better able to pay high wages. With active competition he is compelled to sell his goods at extremely low prices. It is well known that in many lines of business, this selling price hardly affords a profit; therefore wages must necessarily be kept at the lowest level. If a competitor,—a weak, struggling competitor, hardly able to keep in the struggle,—cuts down his employees' wages so that he may if possible eke out a profit, in time the stronger competitor will follow suit. Competition between producers means a constant attempt to get cheaper labor and material. The employer, if heartless, can do much to reduce wages. The excessive competition that wipes out profits is the competition that wipes out the fund for the payment of fair wages. The consolidations that can effect economics of production, that can yield profits without extortionate prices, can give good wages and permanent employment. But independently of their ability to pay better wages because of their ability to produce more cheaply, if all the factories in a given industry are combined in a trust, the wages can be raised to a proper point. It simply adds to the cost of production and this is added to the selling price. It comes out of the consumer, not out of the producer. If not all, but nearly all of the factories in any industry are absorbed in one trust, it makes it much easier for a union to deal with the owners of

offending factories, and much easier for the owners of independent factories voluntarily to raise wages, because they know that the great trust will also pay good wages. Assuming that a trust is a monopoly and can fix prices as it chooses, it can afford to pay the highest wages, for they will be added to the other elements of cost and recovered in the selling price. The highest rate will under such circumstances be apt to be paid because, assuming the trust desired to raise prices unduly, it would want to make high wages the penance or pretext for its exactions.

As far as the trust affects wages, we firmly believe that the most likely result is that its owners will form an alliance with their employees, pay them increased wages so as to secure their good-will, add it to the cost of production, and increase the price so as to get for themselves a larger and perhaps an undue profit, but will at first give to the consumers no share in the great economies that the combination effects. This is practically what has been done by the numerous "Trade Alliances" formed in England by Mr. E. J. Smith of Birmingham. In his alliances, employers agree with their workmen to employ only union men. They guarantee never to lower the wages then existing. They promise to give them a portion of any increase in the selling price not occasioned by an advance in the price of raw material. This system does not, in itself, occasion any economies of production or management as do trusts; but if higher prices can be obtained, the workmen get a share of the increase. Higher prices are rendered possible only by securing the co-operation of all union workmen of the trade and by boycotting those not in the alliance.

Wage-earners should not, however, always be satisfied with mere increases in wages which are added to the price. If wages are increased fifty per cent and the price increased

fifty per cent, in the long run the wage-earner *may* lose. Granting that trust owners would continue the course of increasing wages and adding to the price, they cannot permanently do so. Such a course is likely in the lapse of time to break down of its own weight. In the end it may prove ruinous to the trusts and to their employees as well as to the people at large. It will surely produce a decrease in demand, a lessening of production, the shut down of many factories, a loss of employment, a lowering of wages, strikes and every form of industrial suffering and social derangement. The raise of wages which is most beneficial to wage-earners is that which is an increase in proportion to the final cost or selling price. It is by no means contended that all increases of wages which are added to the price are in the long run of no benefit to wage-earners, or economically improper. There are thousands of instances where competition has so reduced profits that wages have been cut and goods have been sold at less than a fair profit. In all these cases wages should be raised and the increase added to the price. What we do claim is that an extortionate price, even though there be an increase of wages included in it, is not only harmful to the people, but may prove so to the wage-earners themselves. The two things which interest the workingman, however much he may think he is interested only in the one, are: first, an actual increase of wages; second, a price fixed by the manufacturer on the product, which shall not be so excessive as to lessen the demand.

It is further to be borne in mind that a blow to labor in one industry is bound to affect labor in all industries; a harm to one class extends to all classes, producers and consumers, wage-earners and capitalists. Suppose the price of lumber or of building hardware is unduly increased; what happens? Less lumber sawed and planed and worked

up; fewer logs cut and transported; but more than this,—fewer houses and stores built. There is less work not only for the lumbermen and the loggers and the sellers of lumber, but for the carpenters and builders, the architects, the masons and helpers, the painters and plumbers. If men are out of employment in all these industries, do you think even those who are kept at work can obtain union wages? Some of these unemployed will seek work in other occupations, and this will tend to lower wages in these occupations. But the evil will not end here. There will be less activity in the real estate market. With fewer buildings there will be higher rents, and higher rents mean higher taxes. Every storekeeper, every marketman, every shopkeeper, every place of amusement, every institution of education, every organization for charity or for promoting religion,—everything that needs money will find fewer customers, fewer patrons, fewer supporters, fewer benefactors;—and will want fewer persons in its employ.

That trusts have raised the wages of their employees is almost universally conceded. While some contend that the increase has not been proportionate to the increase in prices, yet that there has been an actual increase is almost universally admitted. Before the Chicago Trust Conference, Governor Atkinson of West Virginia, in speaking of the claim put forward by trusts that they pay the highest rates of wages to their employees, said of this claim:

"I think it is absolutely true. Trusts pay big wages because they employ none but high-grade men and women, which they can afford to do."

Before the same Conference every effort was made to obtain the opinions of labor leaders. It is most significant that Samuel Gompers, the President of the American Federation of Labor, speaking from the standpoint of the laboring men, argued not so much for the abolition of

trusts, as for the national organization and federation of labor. Like most students of the question of trusts, he was apprehensive of their power, but he did not go so far as to urge the complete annihilation of that which under control or regulation may perhaps be the means of American industrial supremacy, and of raising American wages, and of ensuring the consequent prosperity of American workingmen and therefore of a large portion of American citizens. That he was of the opinion that the increase in the size of industrial combinations was not a menace to labor *provided labor also organized,* is evident from this remark:

"There is no tenderer or more vulnerable spot in the anatomy of trusts than their dividend-paying function; there is no power on earth other than the trade unions which wields so potent a weapon to penetrate, disrupt, and, if necessary, crumble the whole fabric."

On the same occasion M. M. Garland, ex-President of the Amalgamated Association of Iron and Steel Workers, said:

"The position of the worker may become easier as the operation of the trust proceeds; the example is set and the necessity widened for every man in their employ to unite in common organization. The farmer, mechanic, laborer and business man alike will feel its effects for good or evil. . . . The right of workmen, in conference, to be heard through their own selection of representatives as to the rate of wages and as to the hours which the condition of trade warrants will become a fact, and the farce meeting now so often employed by capital as a prelude to the lockout in order to enlist public sympathy, will disappear under the melting rays of peaceful relations forced by a wider field of legitimate trade unions, and the conference settlement will take the place of the strike and lockout between employee and the corporate combination. . . . Thus far in this new day of trusts the workmen in rolling mills find their inclination is to treat with organization. The annual wage scales and agreement were presented by our representatives and conferences were arranged

promptly. An advance in wages, ranging from ten to twenty-five per cent in different departments, was secured, and further advances in wages seem assured by reason of advance in prices of material and product, which is one of our agreements. *A number of plants that had been operating as non-union and at unfair wages, were unionized by the wage rates being applied to them since they became a part of the trusts.* I would not be understood to infer that there would not have been an advance in wages if the trust movement had not been on, nor do we think the price of material would have been less, for we note that in branches where trusts do not control, the greater rate of advance has occurred in material. That in this country a trust, or the trusts, could long maintain an unnatural or inordinate price for a material or a product is a remote contingency, for not alone would that cause other capital interested in the consumption of the product to combine on as large a scale and to become their competitor, but the fact remains that there is not an article produced in these modern times, but there are, or can be, adopted several substitutes for it, and the cost, as a rule, will not vary enough to permit any very great or long-lasting extremity to our needs."

At the same Conference, David Ross, Secretary of the Illinois Bureau of Labor Statistics, said:

"Men who profess to betray great apprehension for the rights and liberties of the people cannot truthfully contend that these various transformations (the consolidation of industrial enterprises) have operated to abridge any of their privileges. On the contrary, there has been a steady and substantial forward movement. It has been further demonstrated that with each succeeding change there has come, not only a reduction in the cost of life's necessities, but also an increase in the wages of human labor, with other improved conditions of employment. It would seem that our latest form of industrial organizations will prove no exception to the rule, so far as toil's compensation is concerned, as wages in the skilled and unskilled occupations have recently advanced fully 25 per cent. This upward movement in wages has not been entirely confined to products manufactured by the trusts. In a few lines of industry prices have been advanced considerably beyond the increase in wages—not on account of any trust influence—but due to the inability of manufacturers to fill orders,

many of them for foreign markets. When productive capacity is more fully developed prices will again decline, but, under the new system, not so as to seriously impair profits or affect wages. . . .

"Great organizations have been formed for carrying on the growing business of the country. During this period the wages of workingmen have been increased and the hours of labor shortened. The application of sound principles in governmental affairs has aided in placing increased comforts within the reach of every wageworker in the land. . . .

"The oil and railroad interests of the country have been singularly free from labor disturbances. As a matter of recent history, our most serious conflicts have been with interests that neglected to federate. Labor leaders will agree that better terms of employment can, as a rule, be obtained from large than from small employers. Why, then, should we fear the results of consolidation? It is the part of reason to encourage a tendency that will make possible higher wages, lower prices, and less hours of labor."

Moreover it is claimed that trusts not only tend to pay higher wages, but that they give steadier employment. Uncertainty of employment is as baneful an injury as low wages. Indeed, it may be much worse. The great damage done to a plant by shutting down always makes manufacturers endeavor to find an average rate of production that will enable them to supply the total demand and keep running constantly. The larger the proportion of the trade enjoyed by any one concern, the better it is able to foresee the demand, and to produce enough to supply it, without, however, over-producing. This is unqualifiedly true and there can be no question that trusts should, and generally do, give steadier employment than competitive producers. The rule has, however, many exceptions where unscrupulous managers of great corporations, in order to manipulate stocks for purely speculative purposes, either over-produce, or arbitrarily close factories in the face of an active demand. There are many, indeed, who claim that the greater the concentration of capital

and the larger the plant, the more injurious is a suspension. They point to the fact that not only does the suspension damage the plant, but what is infinitely worse, it demoralizes the force engaged in managing and selling. They argue that since this force is usually well acquainted with the particular business in which it has been engaged, since it is located in so many places, since it is an organization so difficult satisfactorily to replace, a trust will do everything possible to retain it even when shut down; that the expense of retaining it is so great that every effort will be made to continue the business and employ these men profitably rather than pay them for idleness or lose them because unable to keep them busy; that the profitable employment of the managing and selling force necessitates continuous running of factories and permanent work for wage-earners.

There is, at least, a grain of truth in this; and coupled with the superior knowledge of the great trusts as to prospective demand and trade, it renders it likely that under trusts workmen will have more constant employment than under a system of industry where there are many competitors whose factories have a capacity in excess of the demand, and whose knowledge of conditions does not enable them to correctly estimate the demand and to keep their factories running steadily.

It is a very significant fact in connection with wages and their relation to the increase in size of industrial enterprises that, as industry has tended to specialize, as the division of labor has gone on and men have more and more become skilled in doing well some one piece of work that was in itself but a fractional part of an entire thing, cooperation and consolidation have become necessary; the combined efforts of the workers have produced a large output, there has been a greater abundance and variety

of commodities, and laborers have gotten a larger share. Prices of the necessaries and comforts of life have lessened; yet wages have increased. They have increased not only in actual amount, but also in purchasing power. In the face of the inequalities of wealth that exist to-day and of the poverty and suffering that are not infrequent, the foregoing statement may seem untrue, but it is the conclusion reached by those who have made most exhaustive study of the wage question. That it should be so, follows from natural and economic laws, and is in accord with moral laws. By specialization, by adoption of labor-saving machinery or improved processes or even of more perfect organization, the laboring man is enabled to produce more cheaply. In the nature of things cheap production ultimately necessitates low prices and higher wages. It is easily seen how prices must be lowered. If they were not, the increased product could not be sold. It may not so easily be seen that higher wages are also a necessary result of cheap production, but they are. The cheapening of products, that is, the lowering of the price, means an increase in their consumption, enlarged production, more employment for labor,—higher wages. Even if it be granted that the increase in consumption is not exactly in proportion to the cheapening, that is, even although cutting the price of a particular article in two does not double the consumption or double the demand for labor, the increase is, nevertheless, very great, and sales and total profits are much increased. Moreover as production increases, the employer obtains more money. His capital is augmented. Some of it may be consumed or wasted, but an increasing amount becomes productive capital seeking investment. As this amount accumulates it starts new industries and develops resources theretofore undeveloped; and the result is an increased demand for workers and higher wages.

A typical illustration of the cheapening of a product while there was an increase in work and wages, as a result of concentration and combination and enlargement of the enterprise, is the cotton industry. The following paragraph quoted from Geo. Gunton by A. Leo Weil in his excellent paper before the Chicago Trust Conference, summarizes some statistics collected by Gunton.

"If it is true that the concentration of capital tends to diminish the cost of production and intensify competition, it follows that prices will fall or wages will rise, or both, in proportion as large enterprises supplant small ones. And this is what all industrial history shows has taken place. Take for example the cotton industry in this country. In 1831 there were 801 cotton manufacturing establishments with an average capital of $50,702 each. . . . The ratio of consumption of cotton cloth to population was 5.90 pounds to one (that is, 5.90 pounds to each inhabitant), and the price of cotton cloth seventeen cents per yard. In 1880 the number of establishments had fallen to 756. The average amount of capital invested in establishments had risen from $50,702 to $275,503; . . . the ratio of consumption of cotton cloth to the population was 13.91 pounds to one, and the price of cotton cloth was seven cents per yard, and wages were eighty per cent higher. Comparing 1880 with 1831, the capital invested per spindle was over one-third less, the number of spindles operated by each laborer nearly three times as large, the product per spindle one-fourth greater, the product (in quantity) per dollar invested twice as large, the product per laborer employed nearly four times as great, the price of cotton cloth sixty per cent less, wages eighty per cent higher, and the consumption of cotton cloth per capita of the population over one hundred per cent greater. These are the results of the process of consolidation into large capitals, extending over half a century. What is true of this industry is equally true of all industries in proportion as the concentration of capital has increased."

But while these figures show that from an enlarged product there come, as a result, cheaper goods, lower prices and higher wages, and while undoubtedly this cheap-

ening of product could have been occasioned only by consolidation and by an increase in the size of factories, yet have we sufficient proof to establish the proposition that a consolidation of all the cotton mills would have necessarily resulted in the same way? The figures are of great importance and deserve the most careful study; but in drawing inferences we should not forget that despite the consolidation of cotton factories and their increase in capitalization, there were in 1880, seven hundred and fifty-six competitive factories. The concentration of capital in the cotton industry made possible a cheaper cost; but there was active competition, in this case at least, to occasion lower prices.

It must be remembered that the cheapening of the price of manufactured articles means cheaper goods for the producers themselves, in so far as they are consumers of those goods. If the cheapening be generally extended to all classes of manufactured goods (and this, as a rule, has occurred), an actually smaller amount of wages may have an increased purchasing power and therefore be relatively an increase of wages. Specialization is either a new division of human labor, or the adoption of new and improved machinery. In whatever way it manifests itself, it always means more abundant production. Nearly all products tend to grow cheaper, because inventive talent is continually being exhibited in so many industries. Those which have the least tendency to grow cheaper are those in the production of which there is the least possibility of a division of labor and the least opportunity to use machinery and to concentrate and combine, viz., agricultural products. Indeed, there has been, of late, a tendency for prices of agricultural products to increase. The report of the U. S. Senate Committee which investigated prices and wages from 1860 to 1891, and which considered two hun-

dred common products, manufactured as well as agricultural, found that wages had increased 68 per cent. The prices of one hundred and forty manufactured articles had fallen from 6 to 40 per cent. Fifty-eight articles had increased in price. The net decrease was 4 per cent. With one or two exceptions all of the fifty-eight products, the prices of which had increased, were agricultural or raw material products in which concentration of capital and the use of machinery had been very slight. By means of consolidation, then, and concentration, wages had increased not only actually and absolutely in money (68 per cent), but more than that in their purchasing power.

In considering the possibility of an increase or decrease in wages, one should never lose sight of the fundamental fact that the source of wages, the fund from which they are payable, is the product turned out by the labor that is to be paid. We do not mean to say that there is an absolutely fixed wage-fund. That is an exploded fiction of political economy. Wages may be increased by compelling employers to take a smaller share of profits, and allotting to the wage-earner a larger share. The economics of the wage question cannot be separated from social problems. American workingmen get better wages than European nations largely because they demand them. American public sentiment will not tolerate any degradation of American workmen. Thus we pass laws regulating child and female labor; and providing for factory inspection and control. Labor unions can do an amazing amount to increase wages by raising the social standards of the masses. Workingmen are like everyone else in that the more they get, the more they want. If we once have worn good clothes, we want always to have good clothes to wear; if we have accustomed ourselves to a certain degree of civilization, we will never give it up, if we can help it. Every

material comfort the workingman has, creates a desire for other comforts. Every privilege that he acquires is an incentive to demand a further privilege, and if he uses it properly, it is a warrant for so doing. People to-day talk about the "uppishness" of domestic servant girls and the demands of labor unions. These demands may in individual cases be unreasonable, but all our strikes and labor troubles are the growing pains of an enlarging liberty and a moving civilization. Well may we lament the day when the workers do not want more of the world's comforts and more of its privileges. Wages increase because laborers are determined to have a share in the world's prosperity. They demand not the right of existence, but the right as men to live, and to live as men,—a life of industry, but also a life of refinement, of comfort, and of happiness;—a plenty and a variety to eat, clothing suitable, sufficient and of good style; leisure for recreation; opportunity for education.

Wages may, indeed, be increased by compelling the employers to accept a smaller amount of profit, but the most certain and sure method of increasing wages is to increase the product, for then there is a greater fund from which compensation can be drawn, and whatever tends to increase the product,—whether it be a machine, a process, or a form of business organization, tends to increase wages. If a body of laborers make a thousand pairs of shoes a day and receive a certain rate of wages from their employer, they in effect receive a portion of the shoes which they make. If, by means of a better organization, they can double that product, while undoubtedly the amount of their wages cannot be doubled in dollars and cents, because of the lower price that shoes will bring, yet it is certain that those wages will be greatly increased. If under the first condition they receive one-third of the product in shoes, or

its equivalent, the employer can equally as well afford to give them one-third of the product under the new system of organization; that is, twice as many shoes. The laborer in the shoe factory can have twice as much to offer as he had before. The increase in the number of shoes made by him and which must be sold will make an increase in the productions of many other persons. It will cause the use of more hides, make necessary the raising of more cattle, give employment to more tanners and leather merchants, and renewed activity to all the manufacturers of subsidiary parts of shoes, such as shoe pegs, shoe thread, shoe buttons, and dozens of other articles that enter into the manufacture of shoes. Thus all these people will have the means of getting more shoes, but they will want hundreds of other articles besides shoes, and in proportion as their means to give something in exchange have increased, their desires or demands or consumptive powers will have increased, and these consumptive powers will mean increased activity in every other industry, and increased production. The product will be divided eventually among the producers. The laborer in the shoe factory will not need twice as many shoes, but he will be able to exchange these shoes for a greater amount of sugar and coffee and flour and other food products, and for more clothing, and for a greater number of means of amusement and entertainment and education, than he would have obtained had he and his fellow workers continued, under the original method of organization, to have made only the thousand pairs of shoes.

The conclusion of the whole matter, then, is this,—whatever increases the amount of product is sure eventually to increase the fund from which wages can be paid; and, without an exception, history shows that in the distribution of the fund, the wage-earners have continuously received

a larger and larger proportion. Every invention, every discovery, every process, every machine, every method of organization which cheapens the product, stimulates the demand for it and increases the amount of work and raises wages. *The truth that should never be forgotten by the wage-earner is that the amount of his wages will depend not so much upon the number of employers, as upon the amount of work there is for him to do. If there are hundreds of competitors and their processes of production are expensive, then there will be comparatively little work. If there are only a few competitors, but if those few can produce cheaply, the amount of work will increase and wages will rise.*

We must never lose sight of the fact that the increase in the demand which gives more employment and higher wages is due not to cheap production, but to lower prices. Cheap production, economical production, always tends to displace labor and to throw it out of employment. It is lower prices, lower relative prices, alone that can increase the demand and stimulate production and in this way give new employment and keep up wages. Again we are impressed with the momentous, yes, awful danger of trusts, if, notwithstanding their power of cheap production, they attempt to exercise monopolistic powers and fail to lower prices in accordance with the cheapening of production. They cannot permanently charge undue prices; that is absolutely certain. Competition is sure sooner or later to arise and cut down their prices; but even temporary extortions, short periods of over-charging, mean diminished consumption and "shut-downs," lack of work, low wages, strikes, quickly alternating periods of spasmodic business, periods of activity followed by seasons of depression, stagnation and bankruptcy. The absolute importance, then, of attempting in every way to remove the obstacles in the way of fair competition, of prohibit-

ing the unfair trust methods of "cut-throat" competition in certain localities while over-charging in others, of abolishing all special privileges to trusts, of crushing out every trust that is a practical monopoly,—should never be forgotten by the wage-earners.

On the other hand, to abolish entirely every large industrial organization would be to re-open the flood gates of excessive competition and to expose ourselves again to all its evils. It would be to go back to expensive methods of production, which would lessen the demand and the output, diminish the amount of labor required, close up many factories and mills, cause others to work half-time, necessitate paring down wages, and produce one continued era of depression, until the sane and sensible method of adopting all cheap means of production and distribution was adopted. It would reduce the United States to the industrial condition of Spain and Turkey and all countries where labor-saving machinery and methods are not adopted. To-day we are in competition with European countries that have cheap labor, and with Asiatic countries, notably Japan, that have still cheaper labor. Unless we adopt all the labor-saving machinery, all the newest and most improved processes, and also the most perfect labor-saving and cheap-producing methods of organization, we shall lose our foreign trade. It is only by these means, which will enable the thousands of American workmen, who receive good wages, to turn out as much as the larger number of European or Asiatic laborers whose aggregate wages are the same, that we can hope to obtain a foreign market. Granting that we could by a tariff retain the home market, —unless we adopt the cheapest means of production we are industrially and commercially ruined, because the capacity of our factories is far in excess of our consumptive powers. It is absolutely necessary that we stifle every trust that is

a monopoly, but the abolition of every great industrial corporation would seem to be a bad policy. Regulation, rather than destruction, of corporations, is what the wage-earner needs. Particularly is it to the interest of the wage-earner to encourage the enactment of statutes that will require or promote publicity of the affairs of corporations, —the fullest publicity that can be had without revealing matters of private business. Let the world know that profits are unduly high and competition will eventually, in all likelihood, assert itself. Prices will be lowered and production increased with the increased demand. Let the world know that prices are high, but that wages are low or the hours or conditions of labor excessive, and the evils will at once be corrected. If that great moral force, which, in an age of selfishness and of laxity of morals, is still an irresistible force, does not assert its power, either in efficient factory legislation, in laws for arbitration, and in other statutes; or else in that silent but effective way of social ostracism, which even in business is powerful; or in that form of business boycotting that refuses to buy of those who would degrade labor;—if that great moral force does not assert its power, competition, at least, will spring up and give to labor greater employment and remunerative and fair wages. Evil loves darkness, and in the world of wickedness the ignorance of the intended victim is the power of the villain. Let wage-earners, then, see that that same publicity which they themselves court is required of trusts.

The dangers that the laboring man apprehends, and his fear that there is a possibility of the lowering of wages by trusts, are not, however, confined to his belief that the trust is a monopolistic power that can arbitrarily reduce wages. He also fears that the economies of the trust permitting and even necessitating the discharge of many labor-

ers in every industry, mean that there will be great numbers of unemployed, and that this will mean a lowering of wages. In the chapter on Displaced Labor we will consider this point at greater length; but it has been impossible to treat of the subject of the arbitrary power of trusts to reduce wages, without touching upon it.

Incidental to the question of wages, and of vital interest to the workingmen in considering laws affecting trusts and combinations, is the fact that the trust method of organization of capital has the same purpose and is based on the same principle as labor unions themselves. The trust is formed to escape the evils of undue competition; the union is organized because the American laborer does not want to be compelled to sell his labor at the price of the cheap pauper labor of Europe, or of the "yellow labor" of the Orient, or even at the price of the laborer who is willing to toil for wages that merely give sustenance and which do not permit him to enjoy any of the comforts of American civilization. The labor union is a labor trust by the common law, and by the decisions of many of our courts it has been declared illegal as a combination in restraint of trade. As a matter of fact, the laws designed to prevent trusts have, as a rule, been applied and enforced only against labor organizations; but a growing public sentiment is compelled to admit that only by effective organization and by united action can the laboring man raise himself up to his proper place in the community. If workmen were forbidden to organize, if each one was obliged individually to agree with the employer as to the hours of work or rates of wages, the workmen of the country would become practically slaves. Their necessities would compel them to accept whatever was offered as wages. Such a condition of affairs would not only be debasing to the workmen, but to all society. We can-

not abolish labor unions by statute. Modern enlightenment would never permit such an attempt. It recognizes unions as necessities. If necessities, they must be allowed to become effective. They must be permitted to become equally powerful with the employers. If the latter combine and consolidate and agree on the scale of wages that they will pay, the workmen must be permitted to combine and federate and amalgamate and agree on what they will take as wages. Society will not tolerate a law declaring labor unions to be conspiracies. Yet, so far, it has been found impossible, consistently, to prohibit the trusts or unions of capital, and to permit the unions of labor; and, as has been said, when it has come to the enforcement of laws against combinations, it has been the labor unions rather than the great corporations which have suffered. All the radical statutes that so far have been passed looking to the absolute abolition of trusts have borne more grievously upon the workmen than the capitalists. The reason for this has been, not so much a desire on the part of the courts to oppress the workmen or to favor capital,—for judges, like all other persons who have to appeal for popular support, prefer not to antagonize the masses,—but because, although the principle and the purpose of the union and the trust are the same, the trust, that is, associated capital, is enabled by means of the corporation to become, not a combination, but a unity. The wage-earners may well take heed that they are not carried away by the clamor for the enactment of laws that will prevent all combinations. If they heedlessly do so, then, like Haman in the story of Esther, they may be building a gallows on which they themselves will be hanged; they may be sharpening a sword for their own execution; they may be building a Frankenstein that will crush its creator; they may be hurling a boomerang which will come back to hit them

hard and to hit them often. It will be well for workmen, who are urged to destroy combinations of all sorts and sizes, to bear in mind the language of Mr. Garland, the ex-President of the Amalgamated Association of Iron and Steel Workers, in his address at the Chicago Trust Conference:

"The working people are appealed to in almost every state to urge the passage of some pet measure of certain representatives to law-making bodies, which proposes to crush out trusts and combinations. While it may be that labor unions do not possess the skill, cunning and capability of trusts to defeat the aim of the enactment, it is certain that in the application of such legislation, the final and only target has been the labor union. The record of neither state legislatures nor National Congress ever contained one breath of intimation that the anti-trust restrictions of combinations or the interstate commerce laws passed by these, could, in the least, interfere with the free and full exercise of the right of workmen to organize. Yet I make the assertion, without fear of successful refutation, that every one of these laws that have been passed upon and found constitutional by the courts, has been found to apply to organizations of labor; and that every such law now on the statute books will be so construed, not excepting the much-mooted law of Texas or the one that came from Arkansas; and if either or both of them became federal enactments there would not be one small cluck left in the workman's eagle that has soared so valiantly through this hall for the past two days."

Many of the anti-trust statutes have expressly excepted labor unions from their provisions. The bill recently passed by the House of Representatives, amending the Sherman Anti-Trust Act of 1890, contained such an exception. But in all probability it is unavailing. Similar exceptions in state laws, relating to labor unions and to combinations of farmers, have been declared unconstitutional.

At the Chicago Trust Conference care was taken to give due consideration to this important question, and a very

able paper was read by a member of the Illinois bar, Mr. William H. Tuttle. The laboring-man and all his friends, real as well as reputed, may properly give consideration to these extracts from this paper.

"The legislator who would regulate trusts and at the same time not embarrass trades unions, should understand the distinction, or lack of distinction, so far as the policy of the law is concerned between combinations of capital and combinations of labor. If the two are so closely allied in principle as to be separated with difficulty, every one interested should understand the matter, and be prepared to meet the difficulty, otherwise many radical measures, intended to root up the tares in the industrial field, will pluck up the wheat also. Striking examples of this have occurred, leading to unjust criticism of our judiciary and executive officers, because laws that were aimed at one class in industrial life, hit another class as well, and perhaps hit the other class first. We will take time to mention one illustration. In 1890 a law was passed by Congress, entitled 'An act to protect trade and commerce against unlawful restrictions and monopolies.' It provided that 'every contract, combination in form of trust or otherwise, or conspiracy in restraint of trade or commerce, among the several states or with foreign nations, is hereby declared to be illegal.' The law was unquestionably aimed at railroads and monopolies, and intended to relieve the middle classes and laboring men. The laboring man, however, was the first to be affected by it; and it has even been so far-reaching as to make the railroad strike illegal, which subject we will discuss more at length hereafter. It can readily be seen that unless we understand the situation our somewhat frenzied demand for radical legislation to help the laboring man, may cause him to pray for deliverance from his would-be friends.

"It may be safely stated as a general proposition, that the policy of the law recognizes no distinction between capital and labor in requiring freedom of competition. This was the rule of the English common law without exception, and is the rule of the present common law made up of decisions based upon principles of public policy. In recent years, however, certain distinctions have been attempted by statute law, which we will notice later. A leading case, State *vs.* Stewart, speaks in common of

labor and capital as follows: 'The principle upon which the cases, both English and American, proceed, is that every man has the right to employ his talent, industry and capital as he pleases, free from the dictation of others; and if two or more persons combine to coerce his choice in this behalf, it is criminal conspiracy. The labor and skill of the workman, be it of high or low degree, the plant of the manufacturer, the equipment of the farmer, the investments of commerce, are all in equal sense property. If men by overt acts of violence destroy either, they are guilty of crime.' Mr. Tiedman, in his text-book on Commercial Paper, says: 'All combinations of capitalists, or of workmen, for the purpose of influencing trade in their special favor by raising or reducing prices, are so far illegal that agreements to combine cannot be enforced by the courts.' In the case of Doremus *vs.* Hennessy, recently decided by the Illinois Supreme Court, this general language was used: 'No persons, individually or by combination, have the right to directly or indirectly interfere with or disturb another in his lawful business or occupation, or to threaten to do so for the sake of compelling him to do some act, which, in his judgment, his own interest does not require.' Those decisions, with many others, indicate that in the field of industry, capital and labor are partners of equal importance, endowed with the same privileges and subject to the same restrictions."

However much we may regret the recognition of these principles of law, and however much they may be opposed to a growing and enlightened sympathetic public sentiment, the experience of the laboring men in the case of the strike of the American Railway Union, conducted by Eugene V. Debs, should show that the proper course of procedure is for the workmen not to urge the adoption of laws against combinations until, indeed, some distinction is recognized between combinations of labor and combinations of capital; and it is doubtful whether any such distinction in principle exists. In his able paper Mr. Tuttle says that although thirty states have passed anti-trust laws, so far neither capital nor labor has been affected, for the reason that there has been no earnest effort to enforce

them; but he shows, upon an examination of the statutes of these several states, that all of them, if given a natural construction consistent with their terms, would be as oppressive to labor as to capital; and this is equally as true of the old law of Texas (1889) and the law of Kansas, as of the anti-trust laws of Missouri, Nebraska, New Mexico, Louisiana, New York, Indiana, Georgia, Arkansas, or any other state.

In some of the anti-trust laws, as in those of Illinois, Arkansas, Georgia, and Indiana, labor unions are specifically excluded from their operation, but a decision of the United States Circuit Court in the north division of Texas in 1897, decided that the Texas anti-trust law of 1889 was unconstitutional as class legislation, because among other things it excepted from its provisions, restrictions of competition in agricultural products or live stock while in the hands of the producer or raiser. Consistency would seem to require a construction to the effect that an exemption of labor unions from the provisions of the statute was also class legislation and therefore void.

We do not wish to be understood as maintaining that there is no distinction between labor unions and trusts, for we think there is one of vital importance. Both are formed because of the desire to eliminate a detrimental competition; but they differ in this important respect, that the labor union admits to its membership all the workers in a particular industry; none have special privileges; and it has been well said that the union represents the movement of the mass of the people for economic justice and social advantage. But the wage-earner must never forget that in the eye of the law, and according to the declarations of many of the courts, there is no distinction between combinations of labor and combinations of capital.

CHAPTER VIII.

TRUSTS AND DISPLACED LABOR.

THE man who makes two blades of grass grow where one formerly grew has been declared a world's benefactor. Much greater, then, ought to be the encomium pronounced upon the person who, by perfecting a tool, inventing a machine, or organizing industry, causes one man in a given time and with a given amount of labor to do the work which formerly required two men; for the community at large can have, as the result, twice as much of that product, or else it can have something else that one of the two men can produce. To the community, the saving—especially when considered only abstractly—seems an advantage. "Why," says it, "should two men be paid when one can do the work?" Sometimes there is another thought which comes to the community: "Is it really a good thing for us, the community, that the second man should lose his employment?" "He is out of employment, and it seems as if he never could again get work." In time the community learns that all the displaced employees have found employment again, either in the same industry or in some other; and the community sees that it is, in fact, good; that it is inevitable. The thought that comes second, if at all, to the community, is, however, the first thought of the displaced employee; namely, the hardship suffered by him. This displacement of labor is the inevitable incident of labor-saving machinery and labor-

saving organizations. It is the absolutely necessary accompaniment of industrial progress. There is no advance without someone or something being displaced in the movement. This is as true of industrial progress as of physical. The more rapid the progress the more sudden the displacement. The extent of the displacement is, indeed, the real measure of the progress—the saving, the benefit. The displacement of labor is one of the most pitiable of all the attendant evils of industrial progress because it is generally the most skilled that are displaced. The more one has specialized, the more it is likely a machine will be invented to do his work, and the more it is difficult for him to find work in some other industry.

Every labor-saving device, whether it has been an invention of machinery or a betterment in organization, has been fiercely opposed by those who were about to be displaced. The history of industrial progress is a record of hostility and opposition to improvements, inventions and innovations. Manual labor has always been the enemy of the new machine. Arkwright and Hargreaves and Crompton were mobbed by the hand-weavers, and in the latter half of the eighteenth century mobs went through England breaking down power-machines. The introduction of nearly every new machine has been fiercely resisted and loudly lamented. One need not wonder at the opposition of the laborers. No man loves that which takes the bread out of his mouth and the mouths of those whom he loves and whom he must feed; and this is what the machine appears to do, and for a time does do. But it would be better for the laboring man if he formulated, in some way, his claim upon the community for the loss he has suffered, and made a reasonable demand that the community, out of the great saving accruing to it and to the introducer of the machine, would pay something to the

skilled laborer whose skill has been rendered useless, and to the faithful employee for whom there is no longer work. It might be possible for the community by some plan to assuage in some degree the suffering occasioned to the individual by these new methods. The community ought not to overlook the great wrong done to the displaced. They are the victims over whom the chariot of progress ruthlessly rides—the victims of industrial campaigns. We pension our soldiers in war. Can we pension the injured veterans of industry? No scheme has ever been devised to compensate workmen displaced by machinery or by improved methods of organization; probably no scheme can be devised; but this much is certain: the most senseless proposition would be to prevent the introduction of improved machinery or better organization. It would be infinitely cheaper for society to pension displaced employees—to pay them for all their lives the wages they have been receiving, for this, at the most, would only delay progress one generation. Perhaps there is no other course than for the displaced laborer to adapt himself as readily as possible to the new condition. Perhaps there is no way of relieving the hardship of the displaced man. But, however practicable or impracticable any scheme of relief, the march of progress cannot be stopped. Labor-saving devices and labor-saving organizations will be adopted because they are a benefit to the community and eventually to all classes and industries;—because they are the greatest good for the greatest number, and finally the greatest good to all.

Trusts do, indeed, close many factories and mills, and throw, temporarily at least, many men out of employment. They would not be cheap producers if they did not. They are labor-saving organizations. Their real economies grow out of the fact that the same work, by means of great centralization, can be done by fewer men. Little

shops which cannot produce cheaply are necessarily closed, either because they cannot compete against the trust, or because if absorbed by it they cannot be run economically and profitably. The men who were employed in them are for this reason no longer needed and are therefore discharged. Thus when the cotton-oil trust was founded, it closed more than a dozen small old-fashioned mills. The whisky trust, immediately after its formation, closed sixty-eight of its eighty distilleries, but with its remaining twelve it was able to furnish the same output as before, and soon to increase it largely. The sugar trust, it is said by Ernst Von Halle, can supply the entire market with the product of one-fourth of the plants which it has absorbed. To oppose the closing up of these unnecessary plants would be the height of folly. If the community had a right, directly or indirectly, to compel the whisky trust to keep on running the sixty-eight distilleries that it closed, in order that the men who were employed in them might not be thrown out of work, and in order that the towns and cities in which they were situated might not lose business industries, why not insist that the whisky trust should increase its distilleries from eighty to three hundred or to five hundred, in order to give more work, and more industries to more towns? The truth is that the industries that were closed were unneeded; that the services of the men who were discharged were not required. The further truth, which is the important truth, is that every cent that is paid for these unnecessary services, or to maintain these unneeded plants, is a burden which is finally borne by the consumer. Its voluntary continuance would be folly. To compel its continuance would be a crime. When one laments the closing of factories and mills by trusts, he should, however, never lose sight of the fact that under the competitive system men are very frequently

being thrown out of work. Factories and mills are constantly being closed. Commercial travelers are every now and then losing their places. If the reports of the commercial agencies, which show that eighty per cent of business men fail at some time or other during their business careers are correct, then it is certain that at some time or other a large portion of the factories and mills of the country are closed and a majority of the employees are thrown out of work.

It is the belief of disinterested students and observers that without the formation of trusts, the small and weak industrial establishments would have been forced by competition to have suspended, and that even a greater number of plants would have been closed, and a larger number of men thrown out of employment. Absorption by the trust has enabled the trust with its various economies to save the proprietors from ruin, if not to give employment to all the workmen. Ernst Von Halle states, as his opinion, that even if no whisky trust had been formed, the natural conditions of production, such as the price of real estate, of wages and of grain, and the rates of transportation, would have given to the distilleries situated in Peoria, Ill., such an advantage that most of the distilleries in other places would in the course of time have been obliged by the force of competition to go out of business; that the sugar refineries of Havemeyer and Spreckels were so much better equipped than those of their competitors, and their owners had the possession of so many valuable patents, and by reason of them and by reason of possessing great capital and experience, were enabled to produce so much more cheaply than their competitors that they were bound in the course of time to acquire nearly all the trade, and their competitors in all probability were destined to bankruptcy and failure; that long before the

Carnegie Co. was formed in this year, 1900, Mr. Carnegie, by reason of his capital and ability, was so much stronger than all his competitors that they, for their own protection and preservation, entered into pools with him; that, if it be urged that the terms and conditions of these pools were oppressive to the smaller concerns in them, it is but additional proof that the owners of these smaller concerns were so afraid of bankruptcy and ruin that, even upon unfair terms, they were willing to enter the pools in order to be able to continue business at all.

One class of persons greatly affected by trusts is that known as "commercial travelers." Competition among sellers for many years mightily increased the number of commercial travelers. The more intense that competition becomes, the greater is the need of the services of this class to "drum" up trade, to exhibit the "line carried," to customers. The commercial travelers are among the most active, aggressive, and public-spirited of American business men. The success of competing establishments depends very largely upon these representatives. They make the fortune of many a mercantile house. Each one has his "trade,"—a good will which is most valuable. Naturally, commercial travelers, are not, as a rule, low-priced men. Their salaries and their expenses constitute a very large percentage of the cost of business; they are one of the largest items that go to make up the cost price to the retailers. As soon as all the competing industries are formed into one combination there is no longer the necessity to solicit trade to the same extent, and the commercial traveler becomes needless. He is dropped. To just the extent that the trust can dispense with his services does it effect a saving. The greater the number of men whose services are dispensed with, the larger the saving. Mr. P. E. Dowe, president of the Commercial

Travelers' National League, has strongly arrayed himself against trusts. He shows how commercial travelers have lost their places owing to trusts. In a speech at the Chicago Trust Conference in September, 1899, he spoke as follows:

"There have been thirty-five thousand commercial travelers thrown out of employment, mostly traveling salesmen, but in part city salesmen who come under the title of commercial travelers; for the man who picks up his gripsack and drums city trade, or invites customers to his headquarters to inspect his samples, is a commercial salesman, or a commercial traveler, by a slight elasticity in the use of the name. A city salesman is eligible to membership in any of the commercial travelers' associations. The majority of city commercial salesmen make out-of-town trips occasionally, sometimes short distance, sometimes long distance journeys. I neglected to note in previous arguments this subclassification; it is unimportant, however, as the city men are but a small proportion of the whole number affected.

"I stated in Washington in June last that twenty-five thousand were reduced in salaries. Could add to-day a thousand to these figures. I was in error when I anticipated, on the 16th of June, that thousands more of the commercial travelers would be dispensed with on July 1st; for, from reasons best known to the trust officials, expected wholesale discharges did not take place. I have heard from less than one hundred discharged on that date, but have been notified of many cases of reduced salary. Reduction in salaries was not exclusively with trusts; many of the 'outsiders,' owing to the pressure of unfair competition and loss of trade, were obliged to make reductions.

"The salesmen who lost positions, owing to the trusts, were all good men; being of the energetic and progressive character proverbial to the American. They could not be discovered as tramping the streets wearing signs of distress. Nearly every one of them had some money saved; some found positions as travelers for other houses; some went into other pursuits; some had farms, and I know of more than forty instances where former drummers are doing farm work; and some are still looking for positions."

Mr. Dowe's statements contain some significant admis-

sions; and it may be questioned—in fact, by the most eminent authority it has been questioned—whether his figures are reliable. They have been obtained, as he himself admits, largely by means of correspondence and verbal reports, sometimes direct and sometimes round-about. They are really little more than rumors. They seem to be about as erroneous as were his anticipations of the 16th of June. But conceding that thirty-five thousand commercial travelers have lost their places, what is the conclusion that is to be drawn? It is that trust methods have at least saved the salaries and expenses of thirty-five thousand commercial travelers; that to that extent production has been made cheaper and lower prices rendered possible, while the energy and force that are characteristic of these commercial travelers can now be directed into some useful channel through which they can render needed services to the world.

It is unquestionable that trusts displace labor. If they did not render some services useless, they would have no advantage. But trusts would not have a sufficient reason for being, even if they could dispense with labor, if the displaced laborers were to remain permanently idle. No calamity would be greater than to have these thirty-five thousand alert, progressive, active Americans reduced to idleness. But they will not remain idle. They will obtain situations. It may be difficult for them to do so at once. In many cases the new positions may not be to their liking; but somewhere or other, in the great field of industry, there will be occupations and work for them. And, however little all their experience and skill as commercial travelers will be availed of, doubtless, in general, the community will be better served by their efforts in these new places of employment than in the useless service of soliciting trade for producers who have com-

bined. Wherever machinery has been introduced, it has at first displaced employees and afterwards has so cheapened the product and increased the demand, that in that same industry there has been need of an increase in the number of employees. The result will not be different in the case of labor-saving and labor-displacing organizations.

The cheapening of a product not only increases the demand for that product, but is sure to build up many kindred enterprises, and in time to benefit every industry. One of the most conspicuous examples of this is the trade of printing. Few machines are so nearly human in the operations they perform, so automatic, as the modern printing press which takes a roll of paper, prints it on both sides, cuts it into proper lengths, folds it and turns it out ready for mailing or delivery. Hardly any machine has displaced so much labor. One modern printing press will do more work to-day than five thousand men could have done on hand presses a century ago. But the press has reduced the cost of printing newspapers proportionately. Even with the increased amount of news that they furnish, gathered with amazing promptness from all quarters of the globe at great expense, they furnish papers of far greater contents, at a fraction of the cost of the old news-letter. But the increase of their circulation, and the amount and value of their advertising space, have more than kept pace with the reduction in price. More printers have employment than did when old-fashioned presses were used, or would in case old-fashioned presses were used to-day. But not only are there more printers,—employment is given to hundreds of thousands of editors, reporters, contributors, newsboys and advertisement writers; and the businesses of manufacturing presses, founding type, making printer's ink, manufacturing paper, etc., have given employment to hundreds of thousands more.

This whole question of displaced labor is but one phase of the question of trusts and wages, and many things stated in the preceding chapter are answers to that question. Particularly should reference be made to the figures and statements concerning the increase in the number of persons employed in the cotton trade. It is a fact of common knowledge that in this industry there has been constant improvement of machinery, and that the adoption of this new machinery has constantly displaced labor; but an examination of the figures relating to the cotton industries shows that in sixty years there has been a great increase, not only in the amount of capital invested in the industry and in the product obtained, but also in the amount of employment and in the wages paid, while the price is only one-third or one-fourth of what it was in 1830.

Perhaps our great means of transportation, the railway, has done more to displace labor than any other modern institution. It has displaced all the stage coaches with their drivers. It has resulted in the closing of most of the road houses and country inns with their proprietors and their hostlers and their servants. It has wholly displaced the canal packet; it has made unnecessary the building of stage coaches and in scores of ways has displaced labor; but it has given employment to hundreds where tens have been discharged. Take the great Pennsylvania railway system as an example. To-day it employs over one hundred thousand men. Half a million people are dependent upon these one hundred thousand. It is a statement which few will care to contradict, that the employees of the railway are to-day better paid, and that they work under more favorable conditions than did the men whom the railway has displaced. The stage-coach builder is practically out of business; but how vastly greater an industry is that of

building railway cars. How infinitely larger is the number of men employed in this industry than the number that was employed in stage-coach building. Think of the other gigantic industries that have been built up by the railways; think for a moment how railways have brought forth and built up the great steel industry, by their demand for rails and bridge materials and structural steel and locomotives. There can be no question that the number of people engaged in transportation now vastly exceeds the number of those engaged in the same business in the days of the stage coach, even considering and making allowance for the vast increase in the population.

It may be said that railway companies are not industrial trusts. Well, then, take the Standard Oil Company. Statistics showing the number of men engaged in that industry when the trust was formed and the number now engaged are not at hand; but to-day the Standard Oil Company, although it makes at least $25,000,000 a year, pays out $125,000,000; that is, its annual volume of trade is $150,000,000, of which $25,000,000 are profits. These $125,000,000 go partly in payment of crude oil, but chiefly in payment of wages and the countless expenses of business. The Standard Oil Company has developed a foreign trade which brings in $60,000,000 a year. It is conceded even by its opponents that its employees receive high wages.

A study of the United States census returns for 1880 and 1890 will show that the increase in the demand for labor in those industries in which labor-saving machinery has been adopted has not been confined to the Standard Oil Company, the transportation business and the cotton trade. They are typical, not exceptional. Take the following figures, selected from a longer table appearing in George Gunton's

book, *The Trusts and the Public.* They all relate to industries in which much machinery is used :

INDUSTRY.	Number of Employees.		Yearly Wages.		Amount of Increase.	Per cent. of Increase.
	1880.	1890.	1880.	1890.		
Boot and shoe, cut stock	2,885	5,503	$254	$422	$168	66.1
Boot and shoe, uppers	437	1,708	389	525	136	34.9
Boots and shoes, factory product.	111,152	139,333	386	476	90	23.3
Boots and shoes, rubber	4,662	9,264	315	428	113	35.8
Boxes, cigar	2,365	5,537	316	385	69	21.8
Boxes, fancy and paper	9,678	19,954	245	344	99	40.4
Boxes, wooden packing	7,722	13,922	358	465	107	29.8
Cordage and twine	5,435	12,799	286	354	68	23.7
Envelopes	1,204	2,501	285	423	138	48.4
Furniture, including cabinet-making, repairing and upholstering	52,087	78,667	417	547	130	31.1
House-furnishing goods, not elsewhere specified	592	3,667	366	485	119	32.5
Iron and steel nails and spikes, cut and wrought, including wire nails	2,910	17,116	431	456	25	5.8
Iron and steel pipe, wrought	5,210	12,064	343	484	141	41.1
Iron work, architectural and ornamental	1,934	18,672	436	640	204	46.7
Leather goods	1,036	3,074	443	476	33	7.4
Oil, cottonseed, and cake	3,319	6,301	265	302	37	13.9
Oil, lubricating	413	1,072	503	817	314	62.4
Printing and publishing	58,478	165,227	522	635	113	21.6
Pulp, wood	1,209	2,830	367	434	67	18.2
Silk and silk goods	31,337	50,913	291	386	95	32.6
Steam fittings and heating apparatus	2,474	11,779	527	644	117	22.2
Tools, not elsewhere specified	3,151	7,095	472	584	112	23.7
Wirework, including wire rope and cable	4,459	7,917	383	503	120	31.3

Statistics thus go to corroborate the testimony of experience and observation, and to confirm the proposition which abstract reasoning demonstrates, that, generally, in the course of time, the individual who has been displaced by labor-saving machines or organizations, finds a new place,

frequently in the same old occupation. It is only by the displacement of labor that labor itself can make any progress. The ability to produce the same amount with less labor means cheaper production. Cheaper production means increased consumption, so that gradually the number of persons employed in the industry tends to increase. The more we cheapen our product, the more we can enlarge our market, foreign as well as domestic, and give work to our citizens. We cannot obtain a large market except we either pay less to our labor or adopt that which will render it more productive. We can render it more productive only by longer hours—against which we protest—or else by introducing labor-saving machines or adopting labor-saving organizations. Either of the latter will displace labor, but at once the community will get cheaper commodities, and in time the worker will get more work and higher wages. Where is labor most poorly paid? Where there is the least machinery, the most antiquated processes, the most imperfect organization of labor. This is as true of nations as of separate individual concerns. In the long run, industry, well organized and well regulated, will be able to give more employment and more continuous employment. If the people of the United States do not want men thrown out of employment, they should adopt every labor-saving machine and organization, so as to produce cheaply and get the markets of the world.

The introduction of machinery or improved organization will, however, permanently displace labor and irretrievably injure not only the men displaced, but the community also, and ultimately the introducer of the machine himself, or the man who perfects the organization, if prices are not lowered. For if the labor product be not cheapened, if the price be not lowered, there will not only be nothing tending to increase the consumption, but the idle laborers

will cease to be consumers. They can no longer take their proportion of the goods manufactured with the machine; they will not be able to be purchasers of other products. There will be a glut of labor. Men who are starving will work for starvation wages. Not only will their own wages be low, but wages of everyone will be depressed. The consumptive power will be reduced, more laborers will be turned out of work, profits will diminish, manufacturers will fail, and with each downward step, disaster and destruction will gather momentum. Prices cannot permanently be kept up; but while they are—and short-sighted selfishness is sure occasionally to put them up—all the evils mentioned will occur.

Will manufacturers voluntarily reduce these prices as they introduce labor-saving machines, and adopt labor-saving organizations, or will they contend that they, and not the community, are entitled to all the saving? We have seen in an earlier chapter that cheap production eventually results in a lower price. Competition in the past has compelled a reduction in the price when there has been a reduction in the cost. When one manufacturer has adopted a machine, if unpatented, some other manufacturer has also soon adopted it, and the competition has reduced the price. As human nature exists it can hardly be doubted that if one of many manufacturers got hold of a machine that was labor-saving and cheap-producing, he would retain all of the saving he could. Where persons by a patent obtain exclusive control of a machine, they invariably do this as far as they can profitably. But even patents expire; and, furthermore, if there were no competition, self-interest would to a certain degree restrain those possessing a cheap-producing machine or organization from exacting an extortionate price. They would reduce it just to the point where they could make the greatest profit;

not that their anxiety would be to give a low price, but to get a great profit. A street-car line that charges five cents will, in any ordinary American city, make vastly more than one that charges ten cents. The former will probably pay large dividends; the latter is very sure to go into bankruptcy. It is true that many owners may not comprehend their real and true self-interest, and may charge high prices to get great profits in cases where low prices would give even greater profits; but, in the main, the managers of these properties know even better than others the price that will yield the greatest profit, and whatever they think that will be, that they fix. In case there is no competition and no satisfactory substitute and the commodity or the service is a necessity, the price that will pay the greatest profit is not the price that will pay the fair profit. What we cannot get along without, we will pay the price for, even though it is unduly high. There are some things in which consumption will not be diminished even by high prices, because we must have them regardless of high prices. But fortunately for the world nearly everything that is the subject of barter and sale has a more or less satisfactory substitute. It is because of this fact that cheap production will invariably result ultimately in lower prices, even though all the agencies of production be in the hands of the greedy and the grasping; because as long as there is any possible substitute, there will always be an opportunity, by lowering the price, to cause people to refrain from using the substitute. If there be no substitute, but if the article be not an absolute necessity, the lower price will win some custom and trade which the high price drives away. There is thus always a force tending to make the cheap producer lessen his prices and reach out for new markets and a larger trade. This results in giving more employment and in raising wages. Further, if the producer's profits by a new machine that produces cheaply, are raised, he acquires

a large amount of capital, and this he must invest in some productive enterprise. As a consequence there is more work for the toilers. This is undoubtedly the inevitable, ultimate result. But it may be obtained only after long delay and many setbacks. There will always be greed and selfishness. Trust owners have their full share of these vices;—doubtless many trusts are inspired by greedy and monopolistic motives. Where such motives exist, true self-interest may be, for a time, at least, overlooked, and extortionate prices exacted. If so, there are sure to be, for a time, a lessening of the demand, a decrease in the output, a need for fewer workers, a lowering of wages, and wretchedness of the worst degree. If this policy is inaugurated there is no prospect,—at least as long as it is continued,—of displaced labor obtaining new employment; for instead of the demand being increased, it will be lessened; instead of the manufacturer making more money and having more capital to invest in new enterprises, he will have less. This will be the result until low prices come as a relief, and the longer that high prices prevail the harder will it be—the less able financially will the manufacturer be—to reduce prices. It is not perfectly satisfactory to say that if we will wait long enough, another policy than high prices will suggest itself to trust owners as being not only to the interest of the public, but to the interest of the trusts themselves; or that, if the trust does not adopt this wiser policy, others will. The temporary hardship and suffering and extortion are things we should not be willing to endure. We want not only to escape eternal damnation as the punishment for submitting to a permanent monopoly; but we want our economic policy at all times to accord so fully with economic laws that our penance will be slight. We want not only to avoid an everlasting hell, but to make our stay in purgatory as short as possible.

The awful evils, then, which result from the displacing of labor by the introduction of improved machinery and by the adoption of improved methods of organization,—evils which in the past have been turned into benefits and advantages, only because competition has made low prices follow low cost of production, and because in the wake of low prices have come increased consumption, greater demand, new employment, higher wages,—the awful evils, which, in the past, competition has turned into good, make the problem of trusts momentous. Can we rely on competition, real or potential? It seems clear that we can for ultimate relief; and equally clear that we cannot hope that it will stop all occasional extortions. If competition can not save us, then there must be control or restriction. If government control is impracticable or inefficient, and trusts are not subject to competition, then we must render it impossible for trusts to become so large as to obtain the control of industries, in other words, absolutely forbid vast combinations; and as to corporations, limit their capitalization;—lose the full benefit of trusts so as to avoid their evils. This is certainly the wisest policy if we cannot escape the monopolistic features of trusts, for monopoly in the end is national bankruptcy and misery. But shall we have to take these steps and adopt such a policy? That is the question of the age. Only one thing is certain and that is that as long as we look to competition to save us and still seek to have the economic advantages of concentrated capital, we must make it possible for fair competition to exist; we must stop cut-throat competition, and by publicity and honesty and fair dealing make active competition a power, and potential competition a force. Perhaps we can directly or indirectly hasten the time when trusts will reduce their prices in proportion to the lessening of the cost of production.

CHAPTER IX.

TRUSTS AND THE FARMER.

If trusts adversely affect any one of the great industries, they will in the long run affect all of them. If they are a burden and an evil to one class, they will become a burden and an evil to every other. If they are injurious to the wage-earner, sooner or later they will result harmfully to the farmer. If they oppress the man in the city, they will in time be oppressive to the man in the country. It is impossible, however, to consider economic problems,—questions as to the production and distribution of wealth and as to money making,—without each man considering their influence upon his particular industry and business. It is most natural that the great agricultural class should in this manner discuss the trust question. In fact, there is a certain peculiar propriety in their doing so, because farming differs from manufacturing and from wage-earning in a special manner. In the former industry, concentration of capital and combination of competitors are practically impossible. There will always be a lack of any complete union. Each farmer is a separate unit in his dealings with those with whom his products are exchanged, no matter how much the latter may be consolidated. The laborer in mills and factories can with comparative ease combine with his fellow laborers; because, the factories and mills being situated in centers of population, the laboring men can meet without inconvenience. In fact, they are

closely associated in their daily work. But the farmers are not only millions in number, but are scattered all over the country. Union is practically impossible. The great number of those who follow the pursuits of agriculture constitutes so large a proportion of American population that the effect of the trusts upon the farmer becomes a matter of vital importance to all the people as well as to the farmer himself.

In one other respect the farmer has a peculiar right to consider the effect of trusts upon his business. He is the producer of the raw material, and there is a greater difference between his interests and the interests of the sugar refiner, for example, than there is between the interests of the sugar refiner and those of the oil refiner, or between the interests of the sugar refiner and those of the starch refiner, or between the interests of the sugar refiner and those of the laborer in the sugar refinery.

It cannot be questioned that the farmer looks with great apprehension at the growth of trusts. As these great organizations more and more get the control of the industries in which he is especially engaged, he finds himself having but one buyer for many of his raw materials. There is no longer competition among buyers. It is a case of one buyer, one bid and one price, and that price, the farmer thinks is fixed, not according to the value of the product, but according to his own needs and necessities. If his necessities are such that he must make the sale (and usually he cannot afford to long hold back his product), then he must take the amount offered him. The farmer sees no hope; and it would be very foolish to deny that he has cause for alarm.

Let us, however, carefully investigate the condition of the farmer under trusts. The majority of the products of American farms are food products. Wheat is the staple.

Beef, pork, mutton and lamb are other important products. Corn, rye, rice, potatoes, beans and barley are also among the chief articles raised. Besides these, there is an increasing cultivation of fruits and vegetables and garden products. All these products require comparatively little manufacture in order that they may be put upon the market in the form required for final consumption. Wheat and the other cereals, indeed, have to be ground into flour or meal, and this may properly be considered a manufacturing operation. The slaughtering of cattle may also be considered manufacturing, although it is an extension of the meaning of the word to include this industry under that term. This one thing, however, is to be noticed with reference to the food products already mentioned, and that is that not only do a great many of them reach the consumer in a condition little changed from their raw state, but that the chief exceptions, namely, wheat and the cereals, are changed into flour at so many mills scattered over so wide an expanse of the country and requiring comparatively so small an amount of capital that, notwithstanding combinations of millers may be formed, the possibility of monopolizing the milling industry is comparatively remote. Further a very large portion of the wheat that is raised in the country finds a foreign market not as flour, but as wheat. Trusts, then, that is, great industrial combinations, are not likely to monopolize the purchase of wheat. The price of wheat, for aught that trusts which are directly engaged in the marketing of wheat or the making of flour, can do, will depend upon the demand; and if great milling combinations can affect economies in grinding the wheat into flour so as to be able to reduce the price, they will undoubtedly be able to stimulate and increase domestic consumption of flour. This domestic consumption of all food products, whether they are consumed

in the raw or in the manufactured state, is sure to be increased if the millions whose incomes are derived from profits or wages in manufacturing industries are increased in number, or if they have their profits or wages increased. Hence, whatever will tend to build up the prosperity of the manufacturer and the wage-earner will benefit the farmer. If trusts, by means of their economies, can cause the manufacturing business of the country to be prosperous; if they can give constant employment at remunerative wages to an increased number of men; if they can, by developing foreign markets, bring into this country vast wealth from foreign countries, then will there be an increased home demand and higher prices for American food products.

It may be said that combinations have, as a matter of fact, depressed the price of farm products. The "Big Four" beef combine may be cited, and attention may be called to the fact, so often proclaimed, that along many lines of railway there is but one set of buyers for many of our staples, and that prices are depressed. Whatever truth there may be in the charges that these combinations actually dominate the market for cattle and for grain and that they arbitrarily lower prices, it will, we believe, upon examination be found that it is not so much their possession of vast capital that gives them thereby exclusive control over the trade and prevents competition, as it is a connection, secret and illicit, with those natural monopolies, the railways; or the possession of special privileges, unlawfully and improperly obtained, at the terminals of the different transportation lines. These, indeed, are monopolistic powers that are in no sense essential to trusts. If low prices exist to-day for wheat or for beef or for any other of our staple products, they are caused not by trusts, but by unlawful conspiracies between the railway interests and the big dealers in these products,—evils that are

in no way essential to the trust form of organization,—but evils which are as unlawful and criminal as robbery or arson or any other felony, and which should be punished in the same way. The railway should never be confounded with the trust. Both are gigantic consolidations of capital; but one in its very nature is a monopoly having many sovereign powers, such as the right of eminent domain, conferred upon it, and having a right of way or the ownership of a strip of land and of terminal facilities, which from the very nature of the ownership of property is exclusive, and which in the case of the railway is monopolistic. The trust, strictly speaking, is a great industrial consolidation, engaged in manufacturing, mining, milling, or selling. It has no element of legal or natural monopoly in it, except as it acquires possession of a public utility or of products, such as minerals, that are limited in amount, or as it obtains a legal monopoly, such as a patent right. The mining of anthracite coal, copper, gold, silver, or possibly the right to furnish gas, water, steam-heat or electricity in a city, owing to the limited space in the streets through which the pipes and conduits must be laid, is monopolistic in its nature; but the control of that which may be and is constantly being produced and which can be produced without limit, as can nearly every manufactured article, can never become a permanent monopoly. If we listen carefully to the statements of those who know why the price of wheat is kept down, if we analyze the reasons given by them, we are forced to the conclusion—admitting all their statements to be true—that the combinations which, today, are said to have killed competition among buyers of our staple products, are not industrial trusts, but conspiracies between favored dealers and railway managers who have grossly violated their duties as common carriers and who have favored certain dealers and discriminated

against others. Perhaps no more detailed statement of the condition of the grain grower and the absence of anything like competitive buying of grain, has been given to the public than that made about a year ago by Mr. S. H. Greeley of Illinois, a prominent member of the National Grain Growers' Association. We quote from him:

"An evil from which no relief is possible seems to be an absurdity in this age of progress and discovery, but the producers and shippers of grain in the great Mississippi Valley are to-day in the grasp of a number of so skillfully managed combinations, created by secret rates and special privileges granted them by railroads, that the brightest mind cannot suggest a practical remedy."

". . . Merchants no longer buy and sell grain in Chicago, but their places have been usurped by the recipients of cut rates and special privileges, who have become as necessary an adjunct of the modern railroad, tapping the grain belt, as the general freight office. It is their business to see that the railroad favoring them gets its share of the grain tonnage, and where a merchant paying the tariff rates of freight would lose money, this specially favored class grows rich; they handle all the grain that they are physically capable of caring for on the particular line of railroad of which they are the favored dealers.

"The effect of this condition has been disastrous in many ways:

"1. Competition has been destroyed to a great extent, and the business of handling grain in Chicago markets has (by force of special favors from railroads) concentrated in the hands of several large concerns, who do not bid against each other, but are known to agree on prices each day for grain in territory where their bids are liable to reach the same sellers.

"Without advantages of ability or capital over the merchants whom they have driven from the field, these concerns, through employees and agents, carry on a traffic, not in grain, but in freight, switching and elevator charges; incidentally the grain is transported, but if tariff rates and fixed charges were paid it would show a loss.

"2. Values suffer far more than would be conceded even by a majority of the grain growers. Unnatural conditions constantly surround the movement of grain; if the business of a railroad lags, grain is forced to move by that railroad through its favored

shipper, by a cut rate, thus creating a fictitious supply at a time when the demand is meager, and the result is a decline in values by reason of excessive offerings, while had the grain been permitted to remain at the country points until the demand justified its shipment, the depression in values would have been avoided and the demand would have been all the more urgent by reason of the grain not being in sight.

"Another condition which tends to depress values is the piling up of vast stocks of grain in the warehouses of Chicago and by every trick and device preventing the moving of these stocks so long as they can be sold for future delivery at a profit. The public and private elevators of Chicago have passed into the hands of the concerns specially favored by the railroads; several of them lease the terminal elevators of the railroads. The result has been that the public warehouse system of Chicago has been prostituted to the extent that the public no longer can handle grain through them, and what were once the depots for the public's grain are absolutely the storehouses of the railroad's favored dealer to the exclusion of all other persons. It is to the advantage of this favored class that low prices should prevail, so that they can fill their vast warehouses (aggregating almost 40,000,000 bushels' capacity) with cheap grain, sell it for future delivery at a premium, buying back and selling for a still more deferred delivery as often as market conditions will permit. When it ceases to pay tribute as a speculative commodity, they then proceed to sell it in eastern and foreign markets, and having driven out of business all other grain shippers by their methods, they merchandise the grain themselves; but no matter how urgent the consumptive demand, so long as speculative sales pay best, consumers cannot get supplies from the vast stores held in Chicago."

"Practically all the great railroads tapping the grain belt are in the grain business; the details of their arrangements are, of course, secrets, but it requires very little investigation to satisfy the most skeptical that they each have one, two or three concerns handling the bulk of grain on their lines, to whom the published tariffs are simply a guide as to what the public have to pay; the public soon discover that the favored shipper can do business with an entire disregard of fixed charges and still prosper. One railroad president admitted at a public investigation that his company had organized a corporation for the purpose of carrying on a grain business at all points on their line, that it

was necessary to do so to protect their interests, as their competitors had arrangements with shippers that were practically preventing the competition of the ordinary shipper."

It would be most unfortunate if, in the study of a new form of industrial organization, we were unable to distinguish between those things which are inherent elements of trusts and those things which are but abuses of their powers. It would be still more unfortunate if we should confound trusts which are merely industrial organizations engaged in manufacturing or trading or mining, and having, under fair trade conditions, no monopolistic powers whatever, with railways, which are in their nature essentially monopolistic. It would be equally unfortunate if we should fail to distinguish trusts which are vast industrial organizations with power, by reason of concentration of capital, to effect great economies in production and distribution, from mere combinations of separate producers and distributers who agree to raise prices or to decrease output, but whose business methods are a continuation of old time methods of separate individual production and distribution, and whose sole purpose is to obtain higher prices without effecting any savings. Railroad discrimination in favor of a trust is by no means proof that trusts can not exist without railroad discrimination, or even that it is practiced in favor only of trusts. It does not even bring up the question as to the advantages or disadvantages, or benefits or evils of trusts. It merely suggests certain evils in the management of what, in its nature, is a monopoly, namely, a railroad, over which, therefore, the people have and should exercise final and supreme control. If the "Big Four" of the beef combine or the Standard Oil Company or great warehousing interests, or the anthracite coal companies or the whisky trust, or any other trust or any person whatsoever, receive from railroads, rates that dis-

criminate in their favor and against their competitors—as unquestionably some of the trusts and many other business concerns (including many private ones) have received—then the step that should be taken is, such statutory prohibitions and regulations, such penalties, the requirement of such publicity of rates, such management and control of railways, if needed, that discrimination will be impossible. But it would be as foolish to prohibit trusts for these reasons as it would be to enact a law against the employment of clerks or salesmen in stores, because many clerks and salesmen have stolen moneys of their employers. The farmer's most efficacious remedy, then, is not the destruction of that which will foster manufacturing and mining and milling, but, in the language of J. C. Hanley, of the National Farmers' Alliance and the Industrial Union of America,

"the protection of the American grain markets from railroad and warehouse monopoly and the encouragement of local and terminal competition."

Abolish these railway discriminations and these terminal monopolies, and the price of wheat and of cattle and of nearly every other staple product of American agriculture will be governed by the law of supply and demand. At the Chicago Trust Conference, J. G. Schonfarber, of the Executive Committee of the Order of Knights of Labor, delivered an address distinguishing the combinations which profit by franchises and special privileges, and which thereby have monopolistic powers, from the great industrial trusts which profit solely by combination of capital. With reference to the evils of railroad discrimination, he said:

"With absolute equality over the railways of the country, so that every butcher could ship a car of cattle just as cheap as the beef trust, the beef trust could not hold the monopoly of the beef

trade; with a like condition every owner of coal lands could reach the coal market on the same terms as the monopolistic combination of coal owners, and this is true in regard to nearly every industry monopolized by trusts. Their control of the means of access to the markets or their connection with those who do control these means of access is the principal source of their power."

Whether or not he is right in his statement that the beef combine or the coal combine would lose its power if there was no discrimination in its favor, we cannot say; but there can hardly be a doubt that, with equal rights of transportation to all, there would be no undue depression of the prices of raw materials.

If the farmer does secure the abolition of railroad discrimination, so that there can be at least fair competition, and so that only the economically superior competitor can succeed, are there any other ways in which the farmer can be benefited? Does he not, indeed, need some other means to obtain prices which will be remunerative to him?

It is stated that the records of the Agricultural Department show that the average cost per pound of raising cotton is six and two-tenths cents, while the average market price for a number of years has been between four and one-half and five cents. The American crop amounts to 3,500,000,000 pounds per year. The loss of national wealth can be easily computed. Further, it is a notorious fact that for many years the cost of wheat production has, as a rule, been in excess of the market price. The remedies for these evils are: first, protection of the American market from warehouse and terminal monopoly, and the abolition of all discriminations tending to favor a few buyers at the expense of the many and enabling a few to monopolize the trade; secondly, an increase of the domestic demand, that is, the demand of the manufacturers and the merchants and wage-earners of the East and North, who are not themselves growers of wheat and cotton. We have shown how

these two remedies will work. But the third remedy is the enlargement and extension of the foreign market. To-day the wheat grower of America has practically but one foreign market, namely, England, which is also our great foreign market for raw cotton. We can to-day produce twice the amount of wheat or meat or textile fabrics that we need. We now produce in round numbers 500,000,000 bushels of wheat per annum; of that we consume 400,000,000 bushels and export about 100,000,000. The price is largely affected by the Liverpool market. But let the American farmer obtain another foreign market in addition to the one he now has and the price of wheat will increase enormously. Any agency that will create competition and give us another market will stimulate the prices which competitors will establish in order to secure the food products which they must have. The possibilities for the American wheat grower in the development of the Oriental market for American wheat are truly wondrous. It has been estimated that if the 400,000,000 of people in the Orient were to consume but half a peck of wheat per capita, or an amount that is only about 1-40th of the average consumed by Americans, we could market each year 50,000,000 bushels of wheat. What an effect this would have on increasing the price of wheat! J. C. Henley has computed that the establishment of this market would raise the price of wheat fifteen or twenty cents a bushel for our entire crop, whether sent to Europe or the Orient or consumed at home, making an annual increase of between seventy-five and one hundred million dollars ($75,000,000 and $100,000,000).

Besides food products, the farmer raises many other crops. As a rule, these which are not food products must go through many processes of manufacture before they are ready for the final consumer. Cotton is the greatest of

American products of this kind. One thing is universally true of all these raw materials, and that is this, the extent of the demand for them depends upon the extent of the market for the manufactured article. Let there be a very slight demand for manufactured cotton products, and the price of raw cotton will be very low. Let there be an increasing demand for the manufactured article and there will be a rise in market price for cotton in the bale. Whatever, then, tends to enlarge our markets, tends to increase the sum paid to the producer of the raw materials. If trusts, by producing more cheaply than others, or by developing valuable foreign markets, can increase their sales, they will increase the demand for the products of American farms. Instead of depressing the price, they will stimulate an increased production and increase the price. Even the Standard Oil Company, by bringing into this country each year $60,000,000 of foreign gold in payment for oil that is sold abroad, aids the American farmer; for whatever tends to increase the wealth of the country, increases its purchasing power. We have alluded already to the remark made by Prof. Jenks, of Cornell University, that a leader of one of the great trusts had told him that in one year they had received $500,000 as profits from foreign trade, and that every particle of the raw material had been produced in America, and that the increased trade stimulated the production of the raw material and kept up the price and gave employment to more men than had been thrown out of employment by the combination. One of the best and most dispassionate books ever written on the trust is that written by Ernst Von Halle in 1896. Commenting at that time upon the charge that trusts depressed the price of raw materials, he said:

"It cannot be denied that the prices of raw materials have in some instances been depressed. The United States Leather Com-

pany, which controls all the sole-leather tanneries of the country, as far south as Texas, succeeded in reducing prices immediately after its appearance in the markets of Chicago and Kansas City. It maintains a purchasing agent in Chicago. In the face of the ring of packers it does not seem to have violently changed the dynamics of supply and demand, but only to have readjusted them. The American Tobacco Company is said to have depressed the purchasing price of cigarette tobacco in the leaf by several per cent immediately after it began business. But we also observe a tendency in the opposite direction. With the increase of the cotton oil production, the price of cottonseed, which the trust had at first somewhat depressed, rose much above the former level. The trusts urge in their defence that in consequence of their efforts to increase consumption, the producers are given the opportunity to dispose of much more raw material, and that thus, in the end, they will enjoy an increase of total profits, even where prices are reduced."

To-day America has unparalleled opportunities to acquire a market in the Orient. The diplomatic tact and firmness of the present Secretary of State of the United States have achieved for us the "open door" to the markets of China. We are assured equal trading privileges with the "most favored nations." No class is more vitally interested in this great achievement than the cotton growers. No section will be prospered more by it than the South, for China, with its 350,000,000 people, presents an illimitable market for American cotton. Since this cotton is in the manufactured form, the development of the Chinese market means prosperity and success for the cotton mills of New England, as well as for the cotton grower of the South. In the chapter on Trusts and Expansion, fuller consideration will be given to the great possibilities for America in trade with the Orient.

Moreover the farmer has interests in the effect of trusts other than those that pertain to him as a producer. Much as he may produce, the number or amount of things that

he consumes, is very great. He has a few products to dispose of; but as the years go by, the number and variety of the things that he obtains in exchange for them increase, for his wants enlarge with the progress of civilization. He, by no means, raises, even, all of his food. His coffee and tea and spices and generally his sugar and molasses and many other things that he eats and drinks, are purchased rather than produced by him. It is only in the most primitive and remote and backward of agricultural communities that the housewife now spins or weaves as a part of the home life; for homespun clothing, even if the domestic labor is not considered at all in ascertaining cost, is rarely as cheap as that which can be produced in mills and factories and obtained in the form of ready made clothing. Further the farmer finds his great expense not in that which he eats and drinks, nor in that which he wears; but in the cost of tools and implements and utensils, of wagons and reapers and mowers and plows, of drills and drags and cultivators, and also in the numerous articles which are needed to furnish the house of the American farmer and make it a typical American home. The farmer is vitally interested, then, like all the other classes of the community, in everything that means a cheapening of the cost of production and a lowering of the price. The great industrial combinations, we have seen, are able to cheapen production; and we have shown that it is impossible for them permanently to charge more than a fair price, or to obtain more than a fair profit over the cheapened cost of production. While the farmer does not want to see the price of the products which he sells diminished one farthing, yet he has not the slightest objection to seeing all those things which he buys, reduced in price, fifty or even seventy-five per cent. This is just what the farmer has seen as as a result of industrial combination in the last half cen-

tury. In the case of many products, he has seen it occur within shorter periods. We have already referred in preceding chapters to the United States Senate Committee's report on prices from 1860 to 1891. This committee investigated about two hundred common articles,—manufactured articles as well as raw materials. Fifty-eight products of agriculture, in which little centralization of capital and little combination of effort were possible, showed increases in prices, varying from thirty to one hundred per cent; while the prices of one hundred and forty groups of manufactured products, in the making of which labor-displacing machinery had largely been introduced, fell from sixty to forty per cent, and some as much as seventy per cent, notwithstanding there had been a large increase (sixty-eight per cent) in wages.

It would be folly to deny that there is danger in trusts to the farmer. The popular fear is that the prices of the articles manufactured from his raw materials will be unduly raised. The demand is ever for low prices. The manufacturer who first yields to that demand obtains the enlarged trade. The trust by selling at low prices can increase its output. There is, indeed, a constant effort on the part of the trust, if it seeks to enlarge its output, to cheapen the cost of articles which it produces and sells, by obtaining its raw materials as well as its labor at the lowest prices. By so doing it can obtain large profits without raising prices. Extortionate profits can in this way longer be concealed from the public. But the ultimate discovery of these extortionate profits is sure to arouse competition, and with competition will come higher prices for raw materials and lower prices for the manufactured goods. That is one side of the picture. On the other side, the trusts are better able to give fair prices to the producer of the raw materials in just the proportion that the trusts control the

price, in just the proportion that the trusts control the market. They can afford to pay high wages for labor and good prices for raw materials, if they have that practical monopoly of the market which so many attribute to them; because they can recoup the increased cost by an increase in price. The real and important truth is this: the cheapest producer and seller will get the trade. The nation or individual that produces with the least waste will win in the struggle for the world's industrial supremacy. The demand for cheap goods will require the use of nearly every means of lessening cost. The producer or the nation of producers that does not adopt every labor-saving machine and also every labor-saving organization, so as to make labor productive and so as to save waste, can sell its goods in competition with others, only by depressing the price of its raw materials or the wages paid to its employees. It will not be difficult to do this, because if the producers of raw materials do not sell them at the depressed price they will be unable to sell them at all. On the other hand, the producer who saves every waste in distribution and production will be able to sell so cheaply that he will build up a big trade and have greater need for raw materials and therefore will pay more to get them. The conclusion of the whole matter is this: those who unite in great industrial organizations to produce are, by their savings in production and in distribution, generally able to obtain a fair profit even while maintaining low prices for their products, and while paying increased wages and the same or higher prices for raw materials; but all those who produce by the extravagant methods that tend to excessive competition are sure ultimately to lose this trade and to fail to continue as competitive bidders for the raw material of the farmer.

The farmer, indeed, has much at stake; but the true

policy for him would seem to be to encourage the growth of home industries, thereby increasing the home market for his products; to support every policy, industrial or political, that will enlarge the foreign market,—either that which will cause a demand for his raw products in their raw condition or that which will foster an increased demand for American manufactured articles,—thereby bringing into the country increased wealth for expenditure in the purchase of American products, all of which have their ultimate source in the American farm; and finally the farmer will consider but one of the two sides of his interests if he regards himself solely as a producer and forgets that his own wants and needs are largely supplied by the American manufacturer, miner, and miller, and that everything which tends to cheapen and lower the prices of the products of these industries, enables the farmer to obtain more of the necessities and comforts of life in exchange for his own agricultural products.

CHAPTER X.

TRUSTS AND SPECIAL PRIVILEGES.

So far in our discussion of trusts and their causes, advantages, and evils, we have considered almost wholly the trust which is the natural combination of producers who have found the struggle of competition so ruinous that, in order to avail themselves of the economies that come from consolidation and to avoid the enormous wastes of competition, they have united their interests. We have, perhaps, considered, not the typical trust, but the exceptional and the possible—the ideal trust. Our reason for doing so has not been any desire to build up theories of legislation based upon hypotheses, but to present the question of the benefits and the injuries of trusts, even when they are formed for purely industrial purposes, and when their methods and practices are only those which are incidental to the conditions of modern business life. It must be admitted, we believe, by the unprejudiced, that even the trust that is bereft of special privileges and managed with absolute honesty and with perfect fidelity to the interests of all concerned in it, and conducted in conformity with the letter of every existing statute and solely for the purpose of making money like any other business industry, presents possibilities of industrial as well as social and political injury to the country. The evils as well as the advantages of these trusts—ideal trusts, if you please to call them so—we have already considered. We believe that,

while they may for limited periods be harmful and even noxious, yet in the long run, when rightly formed and honestly managed, even although those in control are actuated only by self-interest and a desire for gain, they will become, on the whole, great means for the cheaper production and more generous distribution of all material comforts, and mighty agencies in advancing civilization and in elevating mankind to a higher position; that competition is sure to prevent any permanent monopolistic evils in them, and that upon any temporary monopolistic evils we may properly, —in fact, should adopt stringent restrictions, in case our future experience proves to us that legislative remedies will be more speedy or more effective than economic remedies.

We are charged with being idealistic, visionary and theoretical in considering trusts in the way that we have. We are told that trusts are not prompted, as a matter of fact, by considerations of more economic production or cheaper distribution; that they are not, in reality, the result of competition; that they are not formed, as a rule, in order to save their organizers from impending bankruptcy and ruin; that experience shows that they do not grow in size and acquire their enormous strength because of their powers as cheap producers and distributers; but that they are ordinarily organizations for the purpose of plundering the people; that they are institutions of human greed and avarice; that they are nourished and supported and built up by favoritism and fraud; that they are the creations of special privileges; and that, if it were not for these privileges, in a free fight and a fair field these great organizations would be defeated in the struggle of competition by the smaller enterprises which are under the direct personal management of their owners.

The special privileges which it is generally said are the cause of the growth of trusts are railroad discrimination,

certain tariff rates which happen to be excessive rather than protective, unfair taxation and the free granting of public franchises. We believe that very nearly all of the trusts owe not only their strength but their formation to privileges of the kinds mentioned, which are, indeed, robberies of the public at large for the purpose of rewarding the favored few.

Railroad discrimination in favor of one person and against another is an act that cannot be denounced in terms too strong. If there is in the whole category of misdeeds any one affecting only property rights, which is more heinous and villainous, more mean and contemptible in its methods, more pernicious in its results, than railroad discrimination, we do not know it. Arson, when life is not endangered, does nothing but destroy some property; but arson is quick in execution, and against its damages every cautious man is insured. The burglar and the thief may rob us of our property, yet they can, at the most, take but little. But the railroad which discriminates in favor of one shipper, stealthily, although gradually, takes from all others the profits of their business and the value of their property. It not only aids in the stealing of property; but with a malice that is almost intolerable to consider, its victim is lured on to constantly endeavor to acquire more property, to build up his business, to overcome the unseen advantage in the industrial march which his competitor has, and thus to keep on in a struggle throughout which the victim hopes and strives against inexorable fate. Railroad discrimination is a contemptible crime, because it is stealing from those who are the support and the maintenance of railways; because it is the plundering of those who have given to railways their enormous powers and their very right to existence; because, furthermore, it is an act absolutely in violation of the implied

agreement of the railways to serve all alike. A book to which frequent reference will be made during the discussion of the trust question, is that which was written by Henry D. Lloyd—"*Wealth Against Commonwealth.*" To many, "*Wealth Against Commonwealth,*" with all its harrowing details of fraud and favoritism, of oppression and crime, may seem like an indictment or arraignment of industrial combinations; but it is in no sense such a document. A careful reading of it will show that it does not even purport to be an indictment against combinations themselves, for in one of the very early chapters, the universal and natural tendency to combination and concentration is summed up in that expressive phrase of Mr. Lloyd: "Monopoly is business at the end of its journey." But "*Wealth Against Commonwealth*" is a specific indictment, replete with charges and counts, apparently substantiated by evidence, showing railroad discrimination, unfair competition, and the practice of methods of corruption, by bribery, intimidation, and improper influence, in order either to obtain the possession of public utilities, or else to induce public officials to refrain from enforcing statutes enacted for the purpose of protecting the public from criminal acts. The great crime—the special sin—which "*Wealth Against Commonwealth*" exposes to the public gaze is railroad discrimination. In an age when men produce but a few of the things which they consume, and when that which one produces is of little value to him, except according to his ability to exchange it profitably for something else, things are worth not what they cost, but what they will bring upon sale or in exchange. Deny one access to the market and you render valueless his product. The highway and the railway and every other channel of transportation are the avenues along which flow all the wealth of commerce. Market value is the only value that con-

cerns the merchant and manufacturer. He who has the cheapest means of reaching the market has wealth assured him. He who is prevented from reaching the market on equal terms is being constantly robbed. It is said, "There is no royal road to learning." By that is meant there is no easy way to acquire knowledge. But the royal road to wealth is the railroad that discriminates in one's favor and against one's competitors. Railroad discrimination, however, is by no means an inherent evil of industrial trusts. It is rather an evil of the railway system. There seems not the slightest reason to doubt that numerous trusts have received more favorable rates than their competitors; that they were built up and sustained in this way. It by no means follows, however, that all trusts have received such favors, nor that railways have discriminated in favor of trusts only. Railway discrimination has been, and is to-day unquestionably being practiced; but large individual shippers are quite as apt to be the beneficiaries of this crime as the larger trusts. Whoever is the beneficiary, is the beneficiary of a fraud and a crime. Railway discrimination is certainly practiced occasionally, and probably frequently, in favor of trusts; but the sensible and proper course is to enact and enforce such laws, to create such supervisory public officials, and to enact such penalties, that railways will either be prevented from this criminal practice or that their own interests will be opposed to it. Abolish railway discrimination and you will unquestionably lop off many of the trusts; and every abolition of such a trust is good riddance to bad rubbish. It relieves us of a business organization that is not only a fraud, but a failure as a cheap producing and distributing organization, for it relies on the favoritism of railway discrimination simply because it cannot succeed in honest competition. But to abolish trusts for this reason would be the height of folly.

If railway discrimination be indeed the cause of trusts, then it would seem that those who are so desirous of destroying trusts would proceed at once to remove the cause. Abolish the cause and the result will cease. Prevent railway discrimination, and if trusts can be kept up only by discrimination in their favor, then trusts will go down. The railways of the country are corporations that in their nature are peculiarly subject to governmental regulation and control, for they not only owe their corporate powers to the government, but an implied agreement in their acceptance of a charter is that they will act as common carriers serving all equally and impartially.

It is charged freely that trusts are built up and sustained by the special privileges allowed them under the customs tariff; that if these restrictions upon free trade were removed, many prices that are now exorbitant would at once be reduced. Is this true? There can be no question that a tariff means, for a time, higher prices. The American tariff is based upon the fact, real or supposed, that our foreign competitors, by reason of more poorly paid labor, are able to produce and sell at a lower price. Its purpose is to protect our home industries from the cheaper products of countries where a lower standard of living exists among the workingmen. There has probably never been a time when, if the tariff had been removed, prices of many of our articles would not have fallen. But the American people, after almost a century of discussion and legislation upon this question, and after experiments with high protective tariffs and with low tariffs imposed only for the purpose of raising revenue, have decided that their prosperity and welfare are fostered by the maintenance of the higher standard of living that characterizes America, and by the holding out of incentives to the establishment of factories and to the building up of industries; and

the great majority of them, while willing to concede that conditions are fast changing, and that cheaper capital and inventive talent are making us a nation of such abundant producers that our greatest need is a foreign market, and that our tariff schedules must from time to time be changed and our policy in the future somewhat altered, still believe from experience that the protective policy is one not to be lightly or rashly cast aside. We cannot forget the depression and stagnation of business life and the paralysis that fell upon industry only a few years ago as the result of the persistent effort to remove our tariff duties. But the American people are not in favor of the tariff that fosters monopoly. We will not abolish a tariff *merely* because the industries that have sprung up under it, in an excess of competition, may have, at some time, reduced the price of their product below the sum that is represented by the cost of production in Europe plus our tariff. Such a reduction in the price is *prima facie* evidence that the tariff on that article ought to be reduced; but it is not conclusive, any more than the price at a "slaughter" sale is evidence of fair market value. If, because of excessive competition, the selling price is less than that which will afford a reasonable profit to the manufacturer after paying American wages to his employees, and if afterwards a combination of these manufacturers restores the price only to the fair profit mark, we do not intend to abolish the tariff, which alone enables them to obtain this profit and to pay these wages. But, on the other hand, if the tariff is being used to permit manufacturers to charge a price one cent in excess of a fair profit after paying American wages, it is being used not to build up American industry, but to foster a monopoly. Its effect is not to aid the American workingmen, but to plunder the American people. Such a tariff is a monstrous robbery, and none will be

quicker to lower it or to abolish it, if need be, than those who for years have voted for tariffs that will be a protection to our manufacturers and a safeguard for American workmen and a cause of prosperity to the whole American people. The subject of the tariff and the trusts is so important that it will be considered in a later chapter, but this much may properly be said here, while we are considering the effects of special privileges upon trusts: if the tariff is building up monopolistic trusts which are charging the American people prices that yield undue profits—and it is possible that a number of trusts are thus built up and sustained—then one way to tear down the trusts is to reduce or abolish this tariff. To prohibit trusts themselves for this reason would be to imitate the Dutchman who, to rid his barn of the rats, burned it. But if you abolish the tariff only in those cases where trusts are using it to exact exorbitant prices, beyond the fair profit mark even after paying American wages, not only will you probably kill many trusts, but if any are left, you will know that, in so far as the tariff is concerned, they are winning on their merits, because economically superior.

Again it is said that trusts derive their strength and power from their possession of public utilities,—for instance that the Standard Oil Company owes much of its strength to its acquiring the pipe lines, which are in reality a means of transportation akin to the railway; and that myriads of corporations, such as telephone, telegraph, electric light, and gas companies, and scores of others, owe all their strength to the possession of franchises in the public streets of cities and villages and in rural highways, and to rights of way acquired by an exercise of the right of eminent domain, and to other public utilities. As to this there is not a particle of doubt. Thousands of companies are monopolies because possessing these utilities. But the ques-

tion of public franchises and public utilities should never be confounded with industrial trusts. The existence of trusts, as a class of industrial organizations, should no more be made to depend upon things done by them by virtue of their possession and control of public franchises, than should the existence of an individual be made to depend upon things done by him by virtue of a patent right held by him in an invention. Public utilities belong to the public. Public franchises are public property. If under our existing political and social and industrial system, our municipalities and state or national governments cannot successfully manage these properties, it by no means follows that they should treat them as worthless property. Public franchises should never be given away. At the most, they should be temporarily granted to the person or corporation who will pay to the people the most for their use, and who will guarantee to the people the most efficient service. In every grant or lease of them there should always be a reservation of the control of the public. Public franchises are generally in their very nature monopolies. He who acquires them knows that competition, even if possible, is impracticable. Their possession does, indeed, give one the power to exact a price for the service to be rendered, which is based not upon the cost of the service, but upon the fact that it can be rendered by only one, or, at the most, by a very limited number. If the industrial trusts owe their power and strength to the possession of public utilities and public franchises—as doubtless some do—the evil lies not so much in the trusts themselves as in the people who have squandered their valuable assets,—the people who, because of some fancied ultimate, indirect benefit to the people, have, like Esau, sold their birthright for a mess of pottage. The remedy is for the people to come again into their own; to hold all that they still retain in the way of

valuable franchises; and, as time goes on, to re-acquire such of them as can honorably be re-taken; to impose fair and equitable taxation upon these valuable property rights, just as other property is taxed and just as Governor Roosevelt and the State Tax Commissioners of New York are striving to do in that state, through their strenuous and gallant efforts to enforce the provisions of the Franchise Tax Law which was introduced by Senator John Ford. Furthermore, every effort should be made to exact and require of every corporation rendering public service, a fulfillment of every agreement and obligation, express, implied, or assumed. Re-gain these public utilities and tax these public franchises, and require the fulfillment of corporation obligations, and you will scotch the snaky trust, as well as destroy thousands of local monopolies.

Akin to the possession of public franchises, is the possession of products which exist only in limited quantities, such as most of our metals and minerals. This is the possession of a natural monopoly. Some of our most exacting monopolies are based upon the control of practically the entire quantity of these products. The anthracite coal pool is an instance. All of the anthracite coal of the United States is found in a comparatively small area, and to-day it is nearly all in the practical possession of the seven great railway companies which traverse the coal fields. The output of coal, its price, and nearly every detail connected with the mining, the transportation, or the selling of it, is determined each month at a meeting of the chief sales agents. About the only limit, to-day, upon the existence of what would otherwise be a pitiless and merciless monopoly in coal, is the enormous amount of bituminous or soft coal which is scattered all over the country. But companies are in existence, and others are being formed, which are obtaining possession of vast areas

of our bituminous coal fields, or the means of transportation from them; also of our richest copper mines; also of the richest deposits of iron ore. If our industrial trusts are able to obtain possession of coal and the metals and minerals which are found in limited quantities, the monopolistic powers which they have are due partly to their great wealth, but chiefly to their possession of these natural monopolies. If by limitation of capital—and in that way only—we can save ourselves from monopoly, then let us by all means limit the capital, for monopoly is a curse in every way. But the danger suggests even deeper thoughts, and causes one to wonder if, perhaps, the proper step to remedy the evil might not be to limit the extent of the power of acquiring these natural monopolies. Many of the constitutions of our states, even those of some of our most conservative eastern states, for a long time contained clauses which reserved to the state the ownership of all gold mines. We do not know whether Pennsylvania has such a clause in her constitution, although New York for a long time did, but if Pennsylvania has, it would be far more sensible for her to have a clause reserving to herself the ownership and control of her coal mines, because they not only lie at the foundation of all her great industries, but furnish to the country, one of life's necessities,—the means of heating our homes and places of business. But, of course, this would be socialistic. It should, however, be borne in mind that in the case of the anthracite coal, the monopoly has been acquired by companies in league with the railway companies traversing the coal fields. If common carriers, chartered and incorporated for the purpose of carrying, and for that purpose only, could be restricted to the exercise of these functions and to the performance of these duties; if, furthermore, discrimination by them in favor of certain miners could be prevented, the practical

difficulty would largely be solved. We would find that our coal, our metals, and our minerals are so widely scattered that attempts to monopolize them would be far more difficult; perhaps, impracticable.

Not a few of our trusts owe their strength and power and existence to the possession of valuable patent rights. Patents are legal monopolies,—made so by law and protected by all the force and power of law. The great majority of the people of this country firmly believe in the wisdom of encouraging inventive talent, by holding out the reward of the exclusive right for a limited period to make, use, sell, and vend a newly invented article. Most of us believe that the great industrial progress of this nation is due to the labor-saving inventions which a generous system of patent law has called forth. But if our trusts are being built up upon patents—if by hook and crook they are being perpetuated long beyond the period of seventeen years, which a patent is supposed to run—as a number of our most oppressive trusts are, then the sensible remedy is a change in our patent laws rather than any attempt to stop that which, if changes in the patent laws were made, would, perhaps, stop themselves. Modify the patent laws and you will wipe out many of the most exacting trusts in the world and shear others of their power, without lessening the incentive to the poor but ingenious inventor.

There is another phase of the question of trusts and special privileges which should not be overlooked. It is the political rather than the industrial phase. The great special privileges which may be obtained by corporations or by persons of great wealth are temptations to them to use every means to obtain them. The prize is great and cupidity is sorely tempted. It is not strange that in order to obtain these privileges, to secure high tariffs, to induce railroad officials to offer secret rebates or cut rates or special

favors, to persuade aldermen and the members of common councils to grant franchises in public streets or to enter into valuable contracts for services to the public, and to influence legislators to vest persons with peculiar powers and privileges,—men should yield to the temptation to pay out large sums of money directly or indirectly as bribes. The best remedy is for public sentiment to set itself against granting to any person or set of persons special privileges of any kind. Charters of incorporation should be granted under general and not special statutes. Public franchises should be leased or temporarily granted only after competitive bidding. Tariffs should be determined and fixed in accordance with government statistics as to cost of production, cost of living, wages, etc., both at home and abroad. Furthermore, bribery should be punished with the severest penalties, and, above all, the moral tone of the people should be elevated and purified, so that bribery and corruption might never find even an apologist. But bribe givers are by no means limited to trust agents or their officers. In "*Wealth Against Commonwealth*" there are many chapters which seek to prove bribery by the Standard Oil Company. Two instances come to mind,—one an alleged attempt to bribe oil inspectors to approve oil which fell below the standard fixed as the flash point; the other an attempt to bribe certain city officials to oppose municipal ownership of a natural gas plant. But in my lifetime I have more than once heard of small local milk dealers—not great, greedy consolidated corporations—who owned hardly more than one horse each and a milk wagon and a few cans and a few cows, who attempted to bribe local milk inspectors to approve milk that was below the standard of purity; and it will be admitted that there are instances innumerable in which private individuals have offered petty bribes to aldermen, members of common councils, and legislators.

To abolish all trusts, because of any attempt which officers of the Standard Oil Company might have made to bribe oil inspectors, would be as foolish as it would be to decree that henceforth milk should not be peddled through a city street by milk peddlers, but should be sold only at farms, because some milk peddler has bribed the milk inspector. Who, in fact, is the worst sinner—the bribe giver or the bribe taker? If the legislator sometimes has been tempted to accept a bribe, is it not well known that not infrequently the legislator holds up good measures in order to secure a bribe as a consideration for withdrawing his opposition? If the Standard Oil Company, or any other company, has, indeed, bribed a public official, and if for that reason trusts should be abolished, why should not public officials be abolished? Common sense suggests that bribery and the bribe giver and the bribe taker should be punished, but not that industry should be stifled.

By all means, let us stop this granting of special privileges, this prodigal giving away of franchises, this surrender of public utilities, this pampering, now and then, of over-fed industries with tariffs that are excessive rather than protective, this iniquitous railway discrimination, this catering to the few out of the store-house of the public. Let us stop this business of favoritism. If we do, trusts by the score—perhaps by the hundred—will tumble down like a child's house of cards. Let us also prevent over-capitalization and corporate mismanagement—let us take away all the chance of the insiders robbing the outsiders, of the majority betraying the interests and wrecking the property of the minority. Let us call "cut-throat" competition, what it is, "conspiracy;" and punish it accordingly; and let us also make public all those affairs of corporations which affect the public. If then there is any trust left, it probably will be an institution of economic superiority,—

able, at least, to produce and distribute more cheaply than any one else. Does the person who would abolish all trusts by one universal *fiat*, by one sweeping prohibition of all combinations of competitors, think that the steps just proposed are likely to be insufficient or ineffective, or that they are half-hearted, shrinking attacks on trusts? We ask him, then, in the first place, to answer candidly: "How many trusts can you think of that would be apt to remain if all the remedies suggested above were adopted and applied? Would not, in your opinion, a very large number of the trusts be abolished? Would not the majority of trust evils be suppressed?" Are such remedies ineffective? Let us ask you again: "Do you think any remedy—absolute prohibition, government license, or anything else—will be effective if trusts are not shorn of these special privileges, if they are not compelled to submit to greater publicity, if corporate management is not required to be faithful, if the strong and powerful in the struggle of competition are not compelled to fight fair? Have your laws, national or state, which have absolutely forbidden trusts, which have declared trust owners criminals, and have threatened them with heavy fines and long imprisonment,—have these been effective? How many less trusts are there since 1890—ten years ago—when you passed the Federal statute, the Sherman act, forbidding them? Four years ago twenty-two states had placed trusts under the ban. Fine and imprisonment, and practical outlawry, were the penalties, yet nine-tenths of the trusts have been formed since then. Your laws have not been successful. Was it because they were not in harmony with economic laws, because they were not in step with the progress of the world, because they "did protest too much," because you did not realize that you could not successfully wrestle with the giant trusts as long as you kept feeding them on

special privileges?" Do you think you can count the number of slaughtered, if you really and truly and earnestly try these methods of extermination? Are the remedies half-hearted, or timorous attacks? Try them and see. Plenty of people have beaten drums and blown trumpets and put through laws, forever and utterly abolishing trusts, but they did not abolish. Trusts are very little more afraid of those laws than they would be if you should cry, "Booh!" at them. But if you intend to enlist in the fight against special privileges in all its forms, you do not want to be chicken-livered; and it is no ninety days' campaign, and no picnic war. Are the proposed remedies a shrinking method of attack? Well, take away all the special privileges, all the chances for over-capitalization, all corporate mismanagement, all unfair competition, and, while there may be some evils left, yet the trust problem will *shrink* to such small proportions that we can dispose of the rest of it under the order of unfinished business.

It is often said *that the trusts are so big that they have obtained control* of the railways and other means of transportation, of the public franchises and utilities, and of the patents; and that the tariffs are made by them and for them; and that in competition with them the struggling competitor is stricken down by a giant's hand. Is not the true statement that the trusts are so big *because* they have obtained control of the railways and other means of transportation, the public franchises, public utilities, etc.? Railway discrimination began before trusts. The Standard Oil Company,—the first of the trusts and, according to Henry D. Lloyd, the successor of the South Improvement Company which made a deal with the railways whereby its oil was to be carried at about half the rate charged its rivals, the difference to be given to the South Improvement Company,—came into being after this manifestly unfair agree-

ment, and not before. If it is, indeed, the successor of the South Improvement Company, one can have little doubt after reading the reports of courts, investigating committees, and the Interstate Commerce Commission, that it came not only after this iniquitous agreement, but as a result of it or of an agreement, express or understood, of similar purport. Of course these things are more or less reciprocal. All concerns seek the privilege, but the big concern is more apt to get it; the privilege results in working up the big concern,—the trust. The appetite does, indeed, grow upon what it feeds. However, if there is any uncertainty as to which comes first, the trust or the privilege, this much is certain, destroy the privilege and you destroy the trust based upon it.

The remedies proposed are natural. They tend not towards socialism, but away from it. They straighten things out and clear away obstacles and leave a clear track for some good, free, healthy individualism. They do not whimper of paternalism, they do not savor of governmental interference. They are good remedies because they seek to reach first causes. They are potent remedies not only for the economic evils, but also for the political evils of trusts. The special privileges which it is possible to secure tempt the trusts to bribe, quite as often and quite as much as trusts by bribery tempt legislatures to create and bring into being some new form of privilege.

The remedies here proposed are also simple, economic and practical. They restore things where they were, where they were meant to be, and where they ought to be. They leave the fight of competition to go on upon its merits. They stop fake contests. They leave trusts free to form and free to act, if they form naturally and act properly, and in accordance with such laws as may be enacted for their regulation and control. They leave the United

States free to adopt the greatest and most perfect industrial organizations, to use in its contest for the world's industrial supremacy; and, on the other hand, free to regulate, control, restrict, or, if found necessary, to abolish; but they also leave each and every citizen of the United States, poor as well as rich, a fair field and a free fighting chance and the fullest opportunity by his own individual efforts to win for himself success, prosperity and wealth. They can certainly accomplish an immense amount in correcting trust evils. If they are not sufficient, they do not prevent the use of supplementary remedies; and they are equally sure to add to their potency.

CHAPTER XI.

PROMOTION, OVER-CAPITALIZATION, AND PUBLICITY, OR WIND, WATER, AND LIGHT.

UNDER normal economic conditions comparatively few individual enterprises would amalgamate except when such a step would result in greatly increased economy in conducting business. Owing to the natural preference of every one to be at the head of his own business concern, people generally are not desirous of sinking their individuality in great corporations. The business which has been built up by a man, is often prized by him because it is a thing of his own creation. The business that is handed down from father to son, and to the son's son, is an heirloom with which men do not like to part. With the exception of the few who for personal reasons desire to retire from active business, sales of "going" and successful business enterprises, especially of a manufacturing character, are comparatively few. Unless paid a sum in excess of its fair worth, it is usually when a person becomes convinced that, because of excessive competition, he is absolutely sure to fail in business, that he will consolidate with others, hoping in the union of the weak to find strength. If only ordinary business considerations prevailed, if there were not other insidious influences at work, we should find that trusts and combinations and consolidations were the symptoms of bad times, and the signs of financial distress, and we should expect to see them most

frequently formed during periods of business depression. It is undoubtedly true that the early combinations were brought into existence by such conditions, and that, even to-day, many of the trusts are combinations of capital on the defensive which have adopted this method of organization as a means of salvation from impending ruin and bankruptcy. But the facility and ease with which shares of stock are bought and sold upon our stock exchanges, and the immense possibilities of acquiring riches rapidly, especially by those who, having control of corporate companies, are fully acquainted with their financial condition, resources and possibilities, and even more especially by those who, being in control of these great companies, are willing for the sake of gain unscrupulously to manipulate the affairs of the companies entrusted to their care,—these things have brought it about that as an actual fact, the great majority of trusts that are to-day formed, are organized apparently for purposes of manipulation rather than manufacturing.

It is significant that most of our trusts now in existence were formed in the recent years of unparalleled prosperity, instead of in the years of adversity. They seem to be a result of good times and buoyancy and confidence, although possibly they are reciprocally a cause of such conditions. It can hardly be claimed that they are the result of the old years of depression beginning with 1893, notwithstanding the trying times of that panic clearly showed business men the awful cost of the wasteful methods of competition and the savings of co-operation and combination. It is doubtless true that few of the trusts, to-day, are formed without the organizers being partly influenced by the possibilities of more economical production and distribution which the new form of organization offers, yet it is even more certain that a very large number of the trust organ-

izers are actuated by other motives,—by the opportunities of unloading their over-valued properties on innocent investors, by possibilities of stock manipulation and, in many cases, by the apparent ability to obtain, at least temporarily, a monopoly,—all of these motives leading to methods and practices which are unscrupulous, if not criminal, and which result in swindling the investing public, in betraying and defrauding the minority stockholders, in impairing public confidence, in unsettling the financial condition of the country, and in attempts to obtain undue profits and to exact extortionate prices. The great evil of trusts to-day—the great source of their evil—is trust promotion, and the ways and means that it adopts and the practices that it occasions.

Trust promotion is a new industry that has sprung up in recent years. The combinations that are to-day made by business men are by no means always prompted by the business men themselves. They are suggested, inspired, nourished, and fostered, as a rule, by men who have no connection whatever with the business enterprises,—by the trust promoters. The profits of trust promoters have in many cases been almost fabulous. It was at one time rumored that the promoters of the American Steel and Wire Company received $15,000,000 in stock for their services in organizing that company. While this was very likely an exaggeration, it is a fact that in November, 1898, one Gerritt H. Ten Broeck of St. Louis, sued John W. Gates and Elbert H. Gary for $1,875,000 cash, the amount which he claimed he would have received for promoting this company had he not been displaced by others; and yet Ten Broeck was to get but one-half the profits. It has also been widely reported that one of the most successful of the greatest trust promoters has within the past two years, or thereabouts, received between $30,000,000 and

$40,000,000 in stocks for his work in organizing trusts, and that deducting his expenses in securing options and charters and "divying" up with others, he has probably realized at the market value of the stocks received by him, about $10,000,000. It is said that the promoter of the American Tin Plate Company received common stock of the company, which was actually worth about $4,000,000, and the par value of which was $10,000,000; while the promoters of the American Steel and Hoop Company, the Republic Iron and Steel Company, and the National Tube Company, are also said to have received, in each case, $5,000,000.

Trust promotion of this kind is made possible only by over-capitalization. Abolish over-capitalization, and the promoting business would fall flat. Put an end to the possibility of making great fortunes through the sale of watered stock, and not one-half as many trusts would be formed. It is usually by giving to the owners of the several plants their actual value, either in cash or in bonds secured by mortgage or, at least, in preferred stock, and then by giving them in addition large amounts of common stock as a bonus,—paying them twice over, as it were, for their plants,—that the trust promoter induces the various owners of the plants to part with their property. Paying them this extravagant price, the promoter and those associated with him can make profits only by selling the stock to the public at a high price. Concealment of the truth and misrepresentation thus become necessary to the success of their plan. Further to give the stock an apparent value they either have to make it earn dividends which are based on extortionate prices, or else to declare dividends which are never earned. The total nominal capitalization of the various incorporated trusts in the United States to-day is about $7,500,000,000, but the best estimates are that the

actual capital is much less than one-half that amount. This shows the amazing amount of over-capitalization in the aggregate. Probably there is not a single trust, the capitalization of which is not greatly in excess of the actual value of its tangible assets; and there are comparatively few whose capitalization is not in excess of their earnings at fair prices.

A typical instance of the way in which modern trusts are formed with inflated capital, was the fish-packing company, commonly known as the Menhaden Trust. Perhaps no better statement as to the manner in which it was capitalized can be given than that which appeared not long ago in *The New York Herald*, in the following article:

"MENHADEN TRUST PLANS.

In the Jersey City Court of Chancery yesterday Vice-Chancellor Pitney granted an order which is the first step toward the reorganization of the American Fisheries Company, more familiarly known as the 'Menhaden Trust.' The company, which has a capital of $10,000,000, *failed recently for $190,000*, and Thomas Russell and Charles Hobbs were appointed receivers by the New Jersey Court of Chancery.

Charles Corbin, as counsel for the receivers, applied to Vice-Chancellor Pitney yesterday for an order authorizing the receivers to sell the property of the company *and to borrow, on receivers' certificates, $25,000* to pay insurance premiums, on the plant, now due. *A committee of stockholders wants to buy in the plant at no more than $200,000.*

Nathaniel B. Church, who was general manager of the old company, testified that it would require $100,000 to man and equip the company's boats and get them ready for the season's fishing. The Vice-Chancellor asked why it was that the company's capital was so large when it required only a comparatively small amount to do business on.

'Oh, that's the English way,' said Mr. Warren, counsel for the English shareholders.

'Well, you've managed to fail in the American way,' replied the Vice-Chancellor."

It must, however, never be forgotten that so great are the economies of production on a large scale, so enormous is the waste of competition which is saved by combination, that properties owned and managed as one consolidated property, are inevitably of much greater value than when run independently. The Standard Oil Company is to-day capitalized for something in excess of $100,000,000, but its stock sells for about 600 in the open market. For several years it has paid dividends averaging thirty per cent, and the rate of dividends is to be considerably raised this year. Notwithstanding the fact that, in fixing the capitalization of the Standard Oil Company, the amount was placed at a sum considerably in excess of the appraised value of the tangible property—such intangible property as good-will, patents, and trade-marks being included in the valuation—yet in so far as earning capacity is concerned, the Standard Oil Company is under-capitalized instead of over-capitalized. If we assume that its prices are somewhat in excess of what they should be and that they should be lowered, it is doubtful if even at the probable decreased receipts, the company could be said to be over-capitalized; and we must not lose sight of the fact that the price of kerosene oil has been constantly lessened since the formation of the Standard Oil Company. The American Sugar Refining Company,—the Sugar Trust,—is capitalized for nearly $75,000,000, and the best estimates are that the actual cost of the property is not over a third or a fourth of the amount of the capitalization. Still, until recently the company has paid for many years seven per cent on its preferred stock of $36,968,000 and an average of twelve per cent on its common stock of the same amount. This dividend paying ability is certainly, in part, at least, due

to the economies of production. It may also be partly due to the imposition of extortionate prices. A study of prices alone will tell which; but the excessive capitalization furnishes an opportunity for concealing the real extent of profits. The American Tin Plate Company is capitalized for $50,000,000, $30,000,000 being common stock and $20,000,000 being preferred. The owners of the plants, the cost of replacing which has been estimated by experts as $12,000,000, received $18,000,000 worth of preferred stock and $18,000,000 of common; $2,000,000, of each kind of stock were sold to the public in order to obtain a working capital, while the balance of $10,000,000 went to the promoter of the scheme. Mr. Byron W Holt, in his article on trusts in *The Review of Reviews* for June, 1899, computes the market value of the stock of the company at the quotations existing at that time, namely, forty for common, eighty-five for preferred. This would make $29,000,000 as the market value for the $50,000,000 worth of stock in June, 1899; but he quotes experts as estimating the net profits of the company for that year at $5,000,000, and the value of the annual output at $20,000,000. Another instance of over-capitalization mentioned by him is that of the American Felt Company, capitalized for $5,000,000, with a bonded indebtedness of $500,000; he estimates that the cost of the tangible assets, will not cover more than the amount of the bonds. The American Steel and Wire Company is capitalized at $90,000,000, $40,000,000 of which is seven per cent cumulative preferred stock. According to Mr. Holt, who has made inquiry into the matter, the actual value of the property does not exceed $30,000,000, and is probably much less. Twice the actual cost of all the important plants consolidated into the companies was paid to their owners. Yet it was reported by one of the directors of the company that

the yearly net earnings of the company would be $12,000,000. Thus it would appear that, in the cases cited, while there has been an excessive capitalization compared with the cost of the tangible assets, there was not excessive capitalization as compared with earnings and dividend paying capacity. The question at once suggests itself, however, whether this great earning capacity is the result of the savings of combination or is due to monopolistic control; also whether, if due to the savings of combination, it should not be shared to a greater extent with the public; also what, if any, effect the over-capitalization itself has had upon the prices that were charged.

The possible evils of over-capitalization are many. The chief are, first: the opportunity and temptation to deceive the innocent and uninformed investor; second: to exact unduly high prices in order to pay dividends upon the excessive capitalization,—this partly for the purpose of acquiring the dividends, but even more frequently in order to give to the watered stock an apparent value so as to make it easy to unload it upon the investing public; third: the incentive to rash speculation in stocks by officers of corporations, and, incidental to this, such management or mismanagement of the affairs of the companies entrusted to them, as will arbitrarily and improperly influence the market value of the stocks and in many cases affect their actual value. Let us consider in detail these evils and their full effect and some possible remedies for them.

So influential a journal as *The New York Herald* has declared editorially that over-capitalization is the root of nine-tenths of all the stock manipulations and frauds that are practiced upon the public. Bourke Cochran, in his address at the Chicago Trust Conference, argued that over-capitalization tended in no way to affect prices. According to him, whatever be the capitalization, the owners of the

company will endeavor to obtain all the profit that they can possibly derive. But it would seem as if the great orator overlooked the fact that excessive capitalization will stimulate those to whom the stock is originally issued, to charge high prices for their products in order to declare dividends and to give an apparent value to their stock, so that they may sell it to the investing public; and that over-capitalization permits the imposition of excessive prices and the earning of unduly large profits without its becoming known to the public, because of the profits being distributed in comparatively low dividends upon a capitalization which the public does not know to be excessive. This, however, is an evil which could be, in part at least, corrected by publicity.

It has been said that over-capitalization, in itself, is of little consequence; that the amount of stock that is issued is not the value of the property of the corporation; that at the most it is merely the opinion of those who issue it, as to its value, present or prospective. But, in fact, it is often not even an honest, *bona fide*, well-founded, or reasonable opinion. A certificate for one share of stock whose par value is $100 is a statement that it represents property worth at some time, in some one's opinion, $100. But our great trusts are often capitalized at sums that cannot be their fair value, now or in their future, in the belief of any person of sound judgment. Against the opinion of Bourke Cochran, who speaks more or less from the theoretical standpoint, should be set up that of James B. Dill, Esq., the well-known corporation lawyer of New York, who recently had charge of the incorporation of the Carnegie Company, capitalized at $200,000,000. In his paper read at the twelfth annual meeting of the American Economic Association, held at Ithaca, N. Y., December 27–29, 1899, entitled, "*Some Tendencies of Trusts which May Become*

Dangers"; there occur these pregnant paragraphs (italics are ours):

"Excessive Capitalization.—The first tendency which may be regarded as dangerous is excessive capitalization.

"The results of excessive capitalization are threefold: I. The Impairment of Public Confidence.—In order to protect the financial reputation and standing of the country, everything relating to finances and financial institutions should be above suspicion either of mistake in judgment or conscious error.

"The country with securities that wildly fluctuate, that are affected by every breath of suspicion or suggestion, is somewhat in the same shape as a ship at sea with a loose and rolling cargo throwing itself from side to side in the hold of the vessel. To the man who thinks, from a financial standpoint, the situation presents a grave question. *The root of the trouble is the alarm, panic and fear which is produced from a lack of knowledge and from want of positive information as to how high or how low these securities ought to go, based upon a public demonstration of the corporate fraction. It is the want of publicity, the resulting inability to form an opinion, and want of judgment as to sound values, that causes the panic and creates the ruin.*

"II. Improper Dividend Payments.—*A corporation that is excessively capitalized, in order to keep in the race, must provide for the payment of at least minimum dividends, and that too upon a stock which by no means represents the actual value of the property*, and often the estimated earning power of the company is based upon the earning power in prosperous times and with no allowances for times of lesser prosperity. In such a situation, therefore, a board of honest and well-meaning directors are faced with a difficulty; they must either pay their dividends to approximately the same amount as their neighbors more fortunately situated, or they must permit their stock to become depreciated in the market as a result of failure to pay dividends. The tendency of an attempt to pay dividends upon this excessive capitalization is to pay dividends in excess of the actual earning power, and out of capital account.

"One way in which this is said to have been done is by the conversion of the capital into dividends, a process which in the end is sure to wreck the company, decreasing as it does its earning power each year in proportion to the amount thus withdrawn. The

tendency is to supply the gap thus made in the capital of the company by forcing on the books the capital account with property taken from elsewhere. In such a case the tendency again is to conceal from the stockholders the real state of affairs.

"III. Effect on Prices and Wages.—*The third effect of excessive capitalization and the attempt to pay dividends upon such capitalization is a tendency to create artificial earnings upon an artificial capital, both by artificially raising the price of the article produced, and by the depreciation of the wages paid.* The result to the public, from an economic standpoint, is objectionable."

Corporate management in the United States has been so frequently and so notoriously corrupt and dishonest and traitorous and villainous, and yet so infrequently punished and so rarely even rebuked or condemned, that there are not a few persons who, knowing the hazards of the ownership of corporate stocks feel but little sympathy with those who are deceived or defrauded in transactions relating to such property. To a great degree, ownership of corporate stocks, whether it be ownership of the scrip for investment purposes, or purchases upon margin, is considered by many as little better than "stock gambling." The practically utter want of any voice in the direction of the business by the small stockholder, his generally complete lack of any definite knowledge of the manner in which his business interests in great corporations are being managed, make the actual value of one's property in such companies, a mere matter of guess. The small investor who buys such property, to a great extent "buys a pig in a bag." When he sells one stock to buy another, he is doing little else than repeating the school boy's favorite method of speculative exchange, "trading jack-knives without sight and without seeing." Not only has the small stockholder no accurate knowledge, but time and time again the officers in charge of his property have misled him, either with absolutely false statements or with statements that natu-

rally cause him to draw conclusions and inferences that were incorrect. Hundreds of times, he has seen the managers of his property absolutely mismanage it and do everything in their power to ruin his business and depreciate its value. During the spring of 1900 the press of the country has been filled with charges that an officer of the American Steel and Wire Company has purposely misled the public concerning the condition of that great trust; that the business of the company has been managed in such a way as to depress the market price of the stocks of the company, and that men have been needlessly thrown out of work and factories unnecessarily closed, for the purpose of giving the public the impression that the affairs of the company were not in a prosperous condition. Even if in this particular case these charges of misrepresentation and mismanagement are untrue, as perhaps is the fact, yet it is only an instance of the possibility of mismanagement by corporation officers and of the impairment of public confidence in the present methods of corporate control and management. The Third Avenue Railroad, one of the great systems of surface street cars in the metropolis, has lately been forced into bankruptcy apparently through the mismanagement and dishonesty and criminal conduct of its officers. The annals of American finance are filled with similar instances.

A remedy that would be most potent, for all the evils of corporation mismanagement, would be to refuse to limit the liability of officers and directors. It is necessary in the cases of great corporations to limit the general liability of stockholders to the par value of the stock owned by them. This is because of the absolute impossibility of all the stockholders taking an active part in the management. But this reason does not apply to officers and directors. Corporate mismanagement will never be stopped, the rights

of minority stockholders will never be fully protected, until officers and directors are held practically to the same liability as individuals, and are released from it only when the company's records show that the special action creating the liability was opposed by them. A director who votes to declare a dividend which has not been earned, should be criminally punished for it, and the corporation should have the right to recover it from him at the suit of any stockholder. At any rate, the minimum of liability of directors of corporations should not be less than that of directors of national banks or trustees of saving banks.

Dishonest and corrupt management is not necessarily confined to corporations that are over-capitalized, but the creation of a large amount of inflated stock not only increases the tendency to improper management, to undue speculation, and to shameful manipulation, but multiplies the opportunities for such malpractices.

Lack of publicity is, however, the real evil, for it furnishes to the persons having knowledge of the true condition of the affairs of a company, opportunities to profit by their own peculiar knowledge, and by the ignorance of others who have money to invest or who hold the stock of the company and wish to sell it.

We have an old law maxim: "The safety of the public is the supreme law," but the safety of the public can be secured only when there is knowledge of the real dangers confronting it. In our system of corporation laws, the ignorance of the public is the supreme flaw. *The New York Herald* of March 6th, in speaking of the reduction in the dividend of the Sugar Trust, says:

"The Sugar Trust exhibits in an equally clear light the evils of secrecy in the management of these great combinations. A fall of $60 a share, in the last three months, preceded yesterday's reduction of the dividends. *As no statement of the earnings or finan-*

cial condition of the property is made to the share-holders, they could have no means of gauging the real value of their holdings. No knowledge that the dividend would be cut in half; no protection against manipulation of the market by insiders or against the rumor-mongers and speculators of Wall Street. A little group of insiders—or possibly one individual among them—alone knew what was to be done when the directors were yesterday hurriedly summoned, two days in advance of the expected meeting time, and after a three minutes' session announced the fact of such vital importance to the thousands of share-holders in the property. On behalf of consumers, the trusts must be kept from tampering with tariffs and legislatures. On behalf of the investing public, they must be compelled to make full and sworn statements, and directors must not be permitted to serve as mere decoys, but must be held to strict accountability, and punished when, as in the case of the Malting Company, described in *The Sunday Herald*, the shareholders are deceived by the payment of so-called dividends in excess of earnings."

Unfortunately there has been of late in all states, a growing tendency to relieve corporations from the duty of publicity of their affairs. James B. Dill, Esq., who has already been quoted, in his paper read at the meeting of the American Economic Association, commented on the marked tendency to avoid proper publicity, as manifested by recently enacted legislation in several important states. In certain great financial states practically no publicity is now required. But it has remained for Delaware, the next to the smallest of all the states, to enact a corporation law which is practically a license for freebooting and piratical financial buccaneers to clothe themselves in the garb of a corporation, and, taking advantage of the comity that has always allowed a corporation formed in one state to do business in every other, to prey upon the unsuspecting and the innocent. There has recently been circulated throughout the country a little four-paged card entitled "*Why do they Incorporate in Delaware?*" Sixteen rea-

sons are given; and the laxity of the law as epitomized in those reasons and the opportunity for fraud and unfair dealings that this statute renders possible, are a reflection upon the integrity and honor of the state of Delaware. We quote from that circular the sixteen reasons, italicizing certain ones of them which particularly render publicity impossible, or which open the door to fraud. Thus it is stated that a corporation organized under the Delaware law:

"1. *May hold its annual meetings outside of this State.*

2. *May keep all original books outside of this State.*

3. *May issue full-paid stock for cash, property or SERVICES.*

4. May save from ¼ to ½ of the expense required under the New Jersey Law.

5. May carry on any lawful business except banking.

6. May have a perpetual or limited existence.

7. May carry on its business in any part of the world.

8. May have a capital stock of any amount, being not less than $2000.

9. May begin business when $1000 of capital stock is *subscribed,* and *this subscription need not be paid* until the Board of Directors so direct.

10. May hold and own stock, bonds, etc., of other corporations, as trustee or otherwise, and vote on the stock so held by it.

11. May have two or more kinds of stock with such conditions as may be desired.

12. May easily be dissolved.

13. *May merge or consolidate with any other corporation.*

14. *May easily increase or decrease its capital stock.*

15. *May hold assets and create liabilities to an unlimited extent,* unless limited in the *Charter or By-Laws.*

16. May organize with three or more persons as incorporators *who may reside in any part of the world.*"

The necessity for publicity, as well as the facts concerning which the public have a right to demand knowledge, have been well set forth by Governor Roosevelt in his annual message to the New York Legislature in January, 1900. After declaring that there was absolute necessity for courageous and effective remedial legislation upon the subject of trusts, he wrote as follows:

"The first essential is knowledge of the facts, publicity. Much can be done at once by amendment of the corporation laws so as to provide for such publicity as will not work injustice as between business rivals.

"The chief abuses alleged to arise from trusts are probably the following: Misrepresentation or concealment regarding material facts connected with the organization of an enterprise; the evils connected with unscrupulous promotion; over-capitalization; unfair competition, resulting in the crushing out of competitors who themselves do not act improperly; raising prices above fair competitive rates; the wielding of increased power over the wage-earners. Of course none of these abuses may exist in a particular trust, but in many trusts, as well as in many corporations not ordinarily called trusts, one or more of them are evident. Some of these evils could be partially remedied by a modification of our corporation laws. Here we can safely go along the lines of the more conservative New England states and probably not a little further. Such laws will themselves provide the needed publicity and the needed circumstantiality of statement.

"We should know authoritatively whether stock represents actual value of plants or whether it represents brands or good will, or, if not, what it does represent, if anything. It is desirable to know how much was actually bought, how much was issued free and to whom, and, if possible, for what reason. In the first place, this would be invaluable in preventing harm being done as among the stockholders, for many of the grossest wrongs that are perpetrated are those of promoters and organizers at the expense of the general public who are invited to take shares in business organizations. In the next place, this would enable us to see just what the public have a right to expect in the way of service and taxation."

It is a rare tribute to the practicability of Governor Roosevelt's suggestions which he endeavored to have embodied in suitable legislation, that the present Democratic Comptroller of the city of New York, Mr. Bird S. Coler, at present the most conspicuous candidate for the Democratic nomination for Governor during the coming campaign, has now thrown the weight of his influence toward a solution of the trust problem, substantially the same as that recommended by the Governor in his message. It is most fortunate that that element in both parties which stands for conservatism in business matters, but for vigorous purity in politics, is in such substantial accord. All men will agree with Mr. Coler in his statement that the state being the power which authorizes the corporation to do business under a special charter or grant of privilege, should stand ready to protect the individual in his rights, and that a knowledge of the corporation's business by the public is necessary for the proper protection of the public. Just as the state, that is, New York State, has long exercised the right to inspect the business and standing of life and fire insurance companies, just as the National Government inspects and examines banks, so now should the state demand of all corporations created by it or permitted by it to do business within its limits, such publicity as shall enable the people to ascertain whether or not the corporate powers and privileges are being used to oppress the people. This government inspection of corporations is the plan of dealing with trusts that Mr. Coler advocates, and is the plan which he has urged the Democrats of every state to favor in the platforms to be adopted by them at their conventions during the ensuing year. The State of New York may deem itself peculiarly fortunate that Mr. Coler should so far endorse the views which in his annual message Governor Roosevelt had expressed, and that a

possible, if not probable, Democratic candidate for the governorship, should urge the same kind of statutory enactments, for it gives promise of united action and of a continuous plan of campaign, regardless of any political somersaults that may occasion a change of party administration. Mr. Coler's public statement concerning trusts was made on or about May 1, 1900. How much in harmony with him Governor Roosevelt is, can be seen by the following utterance of the Governor made in January of that year:

"Where a trust becomes a monopoly the state has an immediate right to interfere. Care should be taken not to stifle enterprise or disclose any facts of a business that are essentially private; but the state for the protection of the public should exercise the right to inspect, to examine thoroughly all the workings of a great corporation just as is now done with banks, and whenever the interests of the public demand it, it should publish the results of its examination. Then, if there are inordinate profits, competition or public sentiment will give the public the benefit of lowered prices, and if not, the power of taxation remains. It is, therefore, evident that publicity is the one sure and adequate remedy which we can now invoke. There may be other remedies, but what these others are can only be found out by publicity, as the result of investigation. The first requisite is knowledge, full and complete."

It is to be hoped that Comptroller Coler will succeed in persuading the Democrats of New York, as well as of all the other states in the union, to adopt his anti-trust plank and endorse the legislation suggested by Governor Roosevelt and himself, for if all parties can unite in advocating such legislation, it is unquestionable that a great deal can be done to abolish the evils attendant upon trusts.

What degree of publicity shall be required beyond state inspection is a question as to which there will be a variance of opinion. Everyone is willing to concede that there are many private matters as to which trusts and corporations

should not be asked because important business secrets would be divulged. The publicity that is required of one corporation must be required from all corporations similarly situated. It is contended by many that that publicity as to any matter concerning a corporation which is acceptable to every stockholder is sufficient publicity to answer all the requirements of the community. We are inclined to believe that this proposition is true, although perhaps the bondholders should be entitled to the same information. It tends to make absolutely public all matters relating to the *very large* corporations, while it leaves the affairs of the small corporations known only to the few connected with them. If a corporation has but five stockholders, ordinarily it will be a corporation of small capitalization and, at any rate, one which affects the people in very few respects. A corporation with that number of stockholders will not be one whose securities are dealt in upon the stock exchange. It will not appeal to the investing public for financial assistance. It will not try to float bonds or to list its stock. Ordinarily, it will have no dominant control over any industry. Ordinarily, it will have a great number of competitors, and will be in no sense a monopoly. On the other hand, if a corporation has a thousand or more stockholders, as do all our great industrial trusts, and if every one of these thousand stockholders have full and accurate information as to the affairs of the company, the public will have the same knowledge, because of the absolute impossibility of a thousand men keeping these matters secret. It has been well said: "Publicity to all of the stockholders is practically publicity to the world, and the public need not be alarmed about a lack of publicity in any corporation where every essential fact concerning its inception, organization, management, and affairs is known to every stockholder." What objec-

tion can there be to a statute giving to every stockholder the right to expect information concerning the property of which he is one of the owners? It is often said that the corporation is merely a form of private business organization, and that the public has no right to know these private business matters; but it should be borne in mind that the publicity here contended for is publicity only to stockholders themselves. "But," say the objectors, "publicity to all stockholders of a great corporation is publicity to the whole world and, in fact, it is your desire to get information for the whole world that leads you to seek to compel the affairs of the corporation to be made known to all of its stockholders." "The plan proposed by you," they say, "will permit any intrusive and inquisitive person, by buying a few shares of stock, to expose the affairs of the corporation against the wishes of the great majority of its stockholders." The reply that immediately occurs is that if great corporations are unwilling that every stockholder should have full information concerning the affairs of the company in which they hold stock, then they should not ask the public to take stock in it. If a man with $100 interest in a trust is not entitled to knowledge as to the way in which this $100 worth of his property is being managed, corporations should not seek to induce people to invest $100. If such a sum is too small an interest, then let the par value of the shares be greater, say $1,000 instead of $100, or, what is the same thing, sell to no person less than ten-share lots. Perhaps a requirement that a person owning $10,000 worth of stock, or that a group of persons owning in the aggregate $25,000 worth of stock, should be granted explicit information upon reasonable demand, would answer all practical purposes in the case of our very great corporations quite as well as a requirement that every single stockholder should have this privilege.

Whatever the nature and the degree of the publicity that is required, it must, in order to cope with the evils of trusts, embrace a system of state inspection after the manner of our bank examinations, as recommended by Governor Roosevelt and Comptroller Coler. Furthermore, the state and the nation must supplement this publicity by detailed statistics which will state for each great trust the cost of production; prices, both wholesale and retail, for the articles made by these trusts; rates of wages; output and capacity; comparative quality; number of hands employed; extent of competition, both foreign and domestic, together with such other information as may have a bearing upon the question.

It may be said that past experience with trusts does not augur well for the success of any movement to make them reveal the desired information. But there has been found little difficulty in enforcing the laws for the inspection of banks and insurance companies, and the money power of these great financial institutions is hardly less than that of the trust, and their business secrets are matters that should be quite as jealously guarded.

It is unquestionably true that publicity will largely remedy the evil of over-capitalization, but possibly it will not prove to be a complete cure. If insufficient, direct legislation against the evil should be tried. There can be no question that over-capitalization gives rise to many evils; and that in no way is it of any material benefit, either economically or financially. If a corporation were formed upon a basis of a stock issue, representing only the actual value of its property, certainly no harm could be done. Such a basis, as has been well said by *The Journal of Commerce*,

"would serve all the purposes of the manufacturers who combine to avert competition and to secure the economies of single management, rather than to sell to the public titles to surplus profits that

will be earned in the future if trade continues to prosper and competition can be restrained." "It is impossible," this paper says, "to resist the conviction that most of the trusts are very much over-capitalized, and if this be the case, the value of the common stock is based upon conditions that may change rapidly, and that can hardly be expected to prove permanent. A curtailment of earnings would lower the value of stocks which are extensively used as collateral for loans, and this is one of the dangers of trust finance as it is practiced."

The interests of the public are too much at stake to permit corporations to masquerade around under a capitalization of tens of millions, when their actual assets are but small fractions of these sums. The people at large cannot afford to accept the statements of interested speculators as to the value of their properties, which they ask the people to take stock in. The state in its sovereign capacity cannot afford to give a charter or a certificate of incorporation to a company capitalized at $10,000,000—which capitalization, in itself, in the minds of many, is a certificate of valuation by the state—unless the state has taken every means to prevent the issue of stock except for actual cash or in exchange for property which is taken at its fair value as determined by competent and disinterested parties, or by state officials acting in a judicial or quasi-judicial capacity. There is an English law concerning the issue of stock in payment of services and property which American states might copy to their advantage. That law provides that all stock which is issued shall be held subject to payment, in full, in cash in the hands of whomsoever it may be, unless before the issue and allotment thereof, a contract shall be filed in the registered office of the company, which contract shall disclose in detail the consideration in the way of services or property for which the stock shall be issued in lieu of cash, and that, in the event of such filing of such contract, that stock can be issued for

property or services rendered to the amount of the par value of this stock.

When all that can be done by direct legislation to prevent over-capitalization is done, we will still feel the need of publicity, because dishonest officers of great corporations, even though every share of their stock shall have been issued for actual cash, have infinite ways of plundering the public if allowed to act secretly and under cover.

One of the serious evils associated with corporate management to-day is the speculation by officials and directors of companies in the stock of their own corporations. It is unnecessary to enlarge upon the evils of such a practice. It would be pernicious, even if this speculation were confined to the purchase of the stocks of the company with a view to their subsequent increase in value, for constant speculation even of this character would mean an interference with the discharge of the proper duties of the officers, and there would always be a temptation for the speculating official to conceal from other stockholders information concerning the true value of their property. The temptation would be so strong that unquestionably there would be not only lack of information, but misinformation and the circulation of all sorts of reports for the purpose of depressing the market price of the stocks. But speculation on this side of the market would have at least one redeeming feature, and that is that the officials would actually be trying to improve the value of the property entrusted to them. Stock speculation, however, quite as frequently takes the form of " short sales," that is, agreements to sell, at a certain price, that which one does not possess with the expectation of purchasing it later at a lower price, and thereby fulfilling the selling contract. The temptation in speculation of this character is to do everything that is possible to depress the value of the property which has

been sold and which one must buy to make good the delivery. It may be impracticable to frame any statute that will actually stop this practice, but it is an evil, the injurious effect of which cannot be overestimated, and one which should be prevented at any cost. Here, again, publicity appears to be the most effective remedy, because when all stockholders have that same degree of knowledge concerning the affairs of the company which the speculating officer has, then will his ability to influence the market and to deceive intending purchasers or sellers be ended.

It is to be borne in mind that the publicity that is required is not only honest information by the officers of corporations which are already founded, but complete specific and detailed statements by promoters and all others who engage in organizing and establishing trusts.

Publicity may not be a complete cure, but it will be a remedy not only for the evils of over-capitalization, but for all the evils and dangers of trusts. If publicity is obtained, prices cannot long be kept unduly high, dividends cannot be swelled by extortion, stocks cannot be made to appear as having an earning power greater or less than what they actually have, for competition will be sure to set in. If there is publicity, the stockholders, little as well as big, will have exact knowledge of the conditions of their property; and mismanagement by officers and directors, and the betrayal of the trusts reposed in them, will be rare. Publicity is the best remedy to try, for it will tend to stop the evils of corporate mismanagement, whether connected with companies that are fairly capitalized or those that are over-capitalized. With perfect publicity, there would possibly be little evil in over-capitalization itself. If we know the real and true earning power of the stock, its real dividend-paying ability, a market price will be fixed for it based thereupon; but without such

knowledge the price may be greatly more or even greatly less than it is worth. The insiders are the ones who profit; the public the ones who suffer.

One great need of the day, then, is publicity of the affairs of corporations. Another is more strict control over corporation methods. We should enact and enforce statutes that will prevent the evils and dangers of corporate mismanagement and which will provide the most stringent penalties for the dishonest practices of which corporation officers are so frequently guilty. The people must rouse themselves from the lethargy into which they have sunk. Instead of looking indifferently upon the losses sustained by a person through the rascality of the officers of corporations in which he is interested, and instead of regarding him merely as a party who has been "burned," the people must realize that all classes, from the rich investor to the laborer with a few dollars in the savings bank, are vitally interested in the attainment of a higher standard of honesty in dealing with corporate property. The wrecking of public corporations, with a resultant loss to thousands of innocent and deluded stockholders, should be treated as a crime deserving the severest punishment.

CHAPTER XII.

WHOSE FAULT IS IT?

It would be most unfortunatte if a problem so momentous and so complex as that produced by trusts, should become a question of partisan politics. It is so great that it needs all the wisdom, all the patience, all the calmness, all the conservatism, and all the courage of all the people. Yet, just as trusts have of late been so inconsiderately denounced, it is becoming more and more the fashion for each party to lay the evil of trusts at the door of the other. The Democrats say that trusts are the outgrowth of Republican policy; the Republicans charge that the Democrats have absolutely refused to unite with them in effective legislation against trusts, or in an attempt to get the U. S. Constitution amended so as to give Congress complete and ample power.

The Democrats are very fond of denouncing the Republicans as the friends of trusts. The latter are declared by them to be the allies of great wealth. Their policy of aiding, by means of a protective tariff, in the building up of American manufacturing, and the consequent development of American resources, which has done so much to make this nation wealthy and this people prosperous, has been denounced as "the mother of trusts."

The thief who is being pursued through the city streets is very apt to point to some one ahead of him and begin a pursuit of that person, with loud cries of "stop thief."

The Democratic denunciation of the Republican party as the party of trusts, is the greatest of all "stop thief" cries. They are quite as guilty as Republicans in the wickedness of trusts. The truth is that the Democrats as a party and as individuals are no more and no less censurable on the trust question than the Republicans. Trust owners, organizers, and promoters are no more confined to the Republican party than are butchers, or steel workers, or bakers. Unquestionably, many trust organizers are Republicans, but there is an equal number of Democrats likewise interested.

Governor Atkinson, in his address at the Chicago Trust Conference, very frankly said that trusts are not confined to any one political party. His words were: "I find about as many Democrats in trusts in the United States as Republicans, and I find at least two of the mammoth trusts of this country are, in a sense, Democratic trusts." If trusts are corrupt and degenerate, the Democrats are as deep in the mud as the Republicans are in the mire. Perhaps the greatest of the Napoleons of finance now engaged in the business of consolidating and combining is a former Democratic Secretary of the Navy. Not a month passes that the press reports do not mention his connection with some great trust. This spring has witnessed the absorption by the Metropolitan Street Railway Company of New York City of the Third Avenue system, its only rival. All the surface railways of that city—New York City proper—are now under the control of this one corporation of which this ex-Secretary of the Navy is the leading financial genius. The Standard Oil Company is considered the greatest of trusts. It is the one accused of the most evil practices. It has even been charged with interfering in politics. The most specific charge was the one which alleged that through its influence a certain Demo-

crat of Ohio, was elected United States Senator. Ex-Governor Flower, ex-Secretary of State Olney, and hosts of others whom the Democratic party has honored and entrusted with office, have been active in promoting or managing trusts and consolidations. This is perhaps no reflection on these successful gentlemen in the eyes of any person, except in the eyes of those who denounce trusts. Very likely trusts should be denounced, but people in denouncing should bear in mind the scriptural injunction as to pulling motes out of their brother's eye while beams are in their own eyes.

During the last two months that have just passed (April–May, 1900) two trusts have been very much before the public, the American Steel and Wire Company and the American Ice Company. The head of the former has been accused of circulating misleading reports concerning the condition of his company and its business prospects, and of arbitrarily closing many of the mills of the company to make it appear that there had been an over-production and thereby to depress the price of stock. It is only fair to say that he has been acquitted. This man is a Republican. The American Ice Company, the other trust that is in the public eye at present, has as near a complete monopoly, in a certain locality, of one of the greatest of life's necessities, as any trust ever secured. Taking advantage of docking facilities which it has been able to acquire and which were of an exclusive character, and of its possession of nearly the entire supply of ice available for New York City, and of all of the important ice-making establishments, it has doubled the price of ice,—an extortionate increase, yielding to the trust inordinate profits. Of all monopolies this is the most merciless. It lays its burden most heavily on the poor, the sick, and the young. The fever-stricken patient is dealt the heaviest blow, but even

the strong and well, find health and life, in the warm summer days, endangered by food and drink that are tainted because of lack of ice to preserve its wholesomeness. Trusts have often been characterized as "octopi," but the American Ice Company is the most vampire-like sucker of human blood that has ever been incorporated. In its organization, as well as in its methods, it exemplifies the worst evils of trusts; for banded together in this company, with others, are several whose official duties make them the guardians of the people's interest. It is freely charged, and to this day it has never been denied, that many officials of New York City are stockholders, and that it is the exceptional privileges which their influence has given to the trust that, with other powers, make it so monopolistic. It is charged that persons connected with the Municipal Assembly or the Common Council of New York are stockholders, and yet at one time the practical method of immediate relief seemed to be the establishment by the municipal government of the city of New York of city plants for manufacturing ice. It is charged—and not denied—that many of the judges of New York City are or have been stockholders of the American Ice Company, and yet not only is that company to-day being arraigned before the people as a merciless corporation, but criminal proceedings are pending in the inferior courts which may—or, at least, might have—come before these judges for trial or review. Furthermore, proceedings are pending before the Attorney-General of the State, preparatory to an action to procure a dissolution of the corporation. Should such an action be instituted, it might be the duty of some of these judges to try it, and it would, perhaps, have been brought before them, had not rumor associated them with the trust. Trusts invariably seek to ally themselves with the dominant political party of the locality in which they are to operate, and the Amcri-

can Ice Company is unquestionably a Democratic trust, in the sense of having among its principal stockholders very many of the leaders of that party in Greater New York.

In the face of active participation in a trust that exercises its great powers with the inhuman greed which has characterized the American Ice Company, denunciations of trusts in platforms framed by these men, or the advocacy by them of statutes filled with prohibitions of trusts, can be considered only as professions which do not square with performance. When the trust offenders are being excoriated, Republicans should not be denounced as specially guilty or as sinners in this respect above all other men. The pot should not call the kettle black.

Not only are individual Republicans no more interested in trusts than Democrats, the Republicans have not been particularly favorable towards trusts in their official party statements,—their platforms. *The New York World* Almanac for 1900, gives the following planks from platforms adopted at Republican State Conventions held in 1899, in so far as they relate to trusts:

Iowa.—To maintain the welfare of the people is the object of all governments. Industry and commerce should be left free to pursue their method according to the natural laws of the world, but when the business aggregations known as trusts prove hurtful to the people they must be restrained by National laws, and if need be, abolished.

Kentucky.—We pledge the Republican party of Kentucky to the enactment of all such laws as may be necessary to prevent trusts, pools, combinations or other organizations from combining to depreciate below its real value or to enhance the cost of any article, or to reduce the proper emoluments of labor.

Maryland.—We strongly favor laws to successfully suppress trusts and all combinations which create monopoly. *It was the Republican party which passed the Federal law against trusts and which is enforcing it so far as states' rights permit.*

Massachusetts.—The Republican party of Massachusetts is un-

qualifiedly opposed to trusts and monopoly, and the capitalization of fictitious and speculative valuations, and reiterates its declaration in the platform of 1894 against stock-watering in all forms, *and points to the existing legislation, and especially to the anti-stock-watering laws of that year passed by a Republican legislature and signed by a Republican governor, as proof of its progress, sincerity, wisdom and courage upon this issue.* It believes that similar laws enacted by all the states in connection with the Federal Trust law already passed by a Republican Congress would put an end to the danger from the growth of great combinations and trusts.

Nebraska.—The Republican party now, as always, opposes trusts and combinations having for their purpose the stifling of competition and arbitrarily controlling production or fixing prices, but we also recognize that legitimate business interests, fairly capitalized and honestly managed, have built up our industries at home, given the largest employment to labor at the highest wage, and have enabled us to successfully compete with foreign countries in the markets of the world.

Ohio.—*We commend the action of the Seventy-third General Assembly of Ohio in passing the stringent law now on our statute books, prohibiting the organization of trusts,* and we denounce such unlawful combinations as inimical to the interests of the people.

The platforms adopted this year of 1900, show that both parties are alike unfavorable to trusts. There is hardly a single state in which during the present year both political parties have not denounced trusts. The declaration of the Republican party in its National platform adopted at Philadelphia, on June 20th, is as follows:

We recognize the necessity and propriety of the honest co-operation of capital to meet new business conditions and especially to extend our rapidly increasing foreign trade, but we condemn all conspiracies and combinations intended to restrict business, to create monopolies, to limit production, or to control prices, and favor such legislation as will effectively restrain and prevent all such abuses, protect and promote competition and secure the rights of producers, laborers and all who are engaged in industry and commerce.

Republicans show as little real friendship for trusts as do the Democrats. Their platforms do manifest a willingness to study into the new problems occasioned by them. They do show a disposition not to rush headlong on a course that may prove harmful, but they manifest quite as much of a desire to remedy existing evils as do the Democrats, and they are able to show legislation of a practical character.

It is still questionable just what sort of legislation should be enacted. The abundance of laws against trusts passed by any party, does not conclusively prove that that party has conferred a service on the people. Yet Republican legislatures have been quite as prolific in trust legislation as have the Democratic. The so-called "anti-trust act" of the United States, being the act passed in 1890, entitled "An Act to Protect Trade and Commerce against Unlawful Restraint and Monopoly," was introduced by, and its passage due to, that life-long Republican, John Sherman, and it is known by his name. But the Republicans have not been content with the Sherman Act. The present session of Congress has seen them diligently trying to do something which would be an efficient remedy. They have proposed an amendment to the Constitution giving to the Federal government absolute power over corporations, trusts, and combines, even to the extent of destroying them; and have introduced a bill of the most drastic character amending the existing Sherman Act. It is useless here to consider whether the proposed law is wise or not, but this much can be truthfully said: it is no more drastic, yet quite as drastic, as the denunciations of trusts in Democratic platforms. In the Judiciary Committee, the Democrats have voted solidly against this proposed amendment to the Constitution, on the ground that it is an invasion of state rights; and more recently every

Democratic member of the House, except five, has voted against this proposed amendment. As it required a two-thirds vote, it was killed. Every well-informed person knows that if the remedy against trusts is to be found in legislation, it must be in Federal legislation. It is absolutely impossible to procure uniformity of legislation in all, or even in very many, of the forty-five states of the Union, and if one state permits the creation of great corporate trusts within its bounds, then under the various clauses of the United States Constitution as to interstate commerce being regulated only by Congress, and as to the rights of persons to life, liberty, and property being inviolable by state legislatures, and under that comity which has always existed between states, notwithstanding the fact that states may possibly have the right to impose upon corporations created by other states the same restrictions which they place upon their own corporations before allowing them to maintain offices or acquire domiciles within their borders, the states, nevertheless, cannot effectively prevent these corporations created by other states from doing business with the citizens of each and every state. Trust legislation, to be effective, must be National. Not only do the political relations of the states towards each other and towards the Union, as established by the Constitution, necessitate this, but the growing intimacy of interstate business relations requires it. One's trade and market are now in no way bounded or limited by state lines, and the laws affecting business organizations should be as extensive in their jurisdiction as our domestic trade. If state laws cannot reach every person and corporation that has a right to trade in that state, we must have National laws. If the Democracy is so attached to the theory of state rights as to vote against giving to the Federal government, power over the trusts which to-day

spread over the whole country and which do business in all sections, they sacrifice the practical to the theoretical, and show the utter incapacity of their party to deal with new and vital questions of momentous importance. No longer need the party which fears to give to the Federal government power to deal with trusts, prate of its anti-trust notions, or seek to make it an issue of National politics. "State rights" is a theory which every invention that facilitates transportation and travel tends to shatter. He who lets it stand in the way of efficient remedies for actual evils, is a "mister man-afraid-of-a-shadow."

In an article in *The North American Review* for September, 1899, on the Legal Aspects of Trusts, Jos. S. Auerbach says:

> "Neither political party offers any protection (to trusts). Each apparently would out-do the other in its bid for public support. New York, if shouting less, is about as active as Texas. Democrats legislate and Republican governors sign; Republicans legislate and Democratic governors sign."

The facts of the case certainly do not justify the Democrats calling the Republican party, the party of trusts.

The evils of trusts, as has been particularly pointed out by Bourke Cochran, are largely the evils of corporations. Which are the states that to-day are most lax in their control of corporations? Under the laws of which states do the great trusts seek incorporation? Democratic New Jersey and Democratic Delaware. Mr. Bryan, at the Chicago Trust Conference, attempted to parry a thrust on this point, intruded into his address by a query from the gallery, with the remark that New Jersey and Delaware were not Democratic in 1896. But until 1895 New Jersey had had but one Republican Governor, and that was in "war times." It was the most rock-ribbed Democratic state in the North. This fact is of interest in connection with the

following from a recent able address by Edward Quinton Keasby, a well-known New Jersey lawyer, upon the corporation laws of that state and upon trusts:

"The first fact to be noted in the inquiry into the policy of New Jersey with regard to corporations is that *there is nothing of much consequence that is new in her existing laws.* The large companies lately incorporated were organized under a general law which, in its substantial features, has been *in force ever since 1846*, and which has been *unchanged in any very important particulars during the last twenty-five years.*

". . . A general act, as I have said, was passed in 1846, and the power to grant special charters was abolished in 1875, and in that year a revision of all the general acts concerning corporations was made and permission was given to any persons to form corporations for any lawful business or purpose whatsoever. *The provisions of that act were substantially the same as those of the earlier statutes, and these provisions have remained substantially unchanged until the present day.*"

Democrats who assail trusts ought not to charge their existence up to Republicans. Reference has been made in a former chapter to the laxity of the laws of Delaware. Over-capitalization is the chief cause of the great trusts. It encourages "promoters," gives to them a chance to make enormous fortunes, but is an irresistible temptation to wholesale frauds. If the worst of the trusts are to be destroyed, if the worst that is in trusts is to be eliminated, the laws of New Jersey and Delaware ought to be amended.

Of late it has been frequently charged that the Republican party is responsible for trusts because it has advocated a protective tariff, and the tariff, it is said, shuts out foreign goods which might compete with trusts and destroy their power. Mr. Havemeyer, the sugar king, has testified before a Senate Committee that "the tariff is the mother of trusts." The assertion coming from one whose efforts to secure protection, when the Wilson tariff bill was passed,

caused such a commotion, seems incongruous; and it is impossible to resist the conclusion that Mr. Havemeyer has a grudge against the tariff because it makes him pay too much for raw sugar, or because the shoe pinches in some other spot. Mr. Havemeyer undoubtedly feels that his powerful trust could stand free trade in refined sugar better than some of his weak competitors, and he probably has little objection to free trade in raw sugar, since it would tend to give a death-blow to the beet-sugar industry. It should not be forgotten that even if some of the trusts have taken advantage of the tariff, the Republican party is not to be blamed therefor. A great majority of the very large trusts have been formed within three years. There has not yet been ample time to see whether trusts are taking advantage of the tariff, or, if that is the case, to enact legislation to correct the abuse. The tariff plank of the Republican platform, 1896, correctly said of the tariff that

"in its reasonable application, it is just, fair and impartial, equally opposed to *foreign control and domestic monopoly*, to sectional discrimination and individual favoritism." It also declared: "We renew and emphasize our allegiance to the policy of protection as the bulwark of American industrial independence and the foundation of American development and prosperity. This true American policy taxes foreign products and encourages home industry; it puts the burden of revenue on foreign goods; it secures the American market for the American producer; it upholds the American standard of wages for the American workingman; it puts the factory by the side of the farm and *makes the American farmer less dependent on foreign demand and price;* it diffuses general thrift and founds the strength of all on the strength of each."

Not only has the Republican party in its platform declared against any tariff which was creative of monopolies, but some of its most eminent members have spoken emphatically in the same strain. John Sherman, the former

Republican Secretary of the Treasury, and for years Republican Senator from Ohio, has used the following language:

"The primary object of a protective tariff is to provide for the fullest competition by individuals and corporations in domestic production. If such individuals or corporations combine to advance the price of the domestic product and to prevent the free result of open and fair competition, I would without a moment's hesitation reduce the duties of foreign goods competing with them, in order to break down the combination. Whenever this free competition is evaded or avoided by combination of individuals or corporations, the duty should be reduced and foreign competition promptly invited."

Charles Foster, Republican ex-Governor of Ohio and ex-Secretary of the Treasury, has declared himself as follows:

"While I have always been, and am yet, a thorough believer in the protective policy, I regard the appropriation of the tariff to enhance the price of any product of the country, as a misuse of the purpose intended. When any trust shall avail itself of a tax upon imports to enhance the price of the product, then the tax should be modified or wholly removed."

The tariff has, perhaps, indirectly been the cause of trusts. It has stimulated the building of factories and mills in various industries. It has made a profit reasonably certain, so far as foreign competition goes; but, as in every business, far more competitors have sprung up than were needed to supply the market. Over-production has ensued. Profits have been lost, plants have proven poor investments, and, to save themselves from bankruptcy, manufacturers have formed trusts. It is the fierceness of home competition that has caused the trusts. But to say that the tariff has been in this way responsible for trusts is like saying that food is responsible for apoplexy and gout, since it is usually the hearty eater who is affected

with these diseases. The trouble is not in the food, but in over-eating. It is not always in the tariff. It is frequently in excessive competition.

It is said, however, that the tariff is the defense and prop of trusts, if not their cause; that by shutting out the foreign product it makes it all the easier for the American trust to monopolize the article and to maintain high prices. It is charged that an iniquitous tariff is the support of the trusts, and Mr. Lawson Purdy, of the New York Tariff Reform League, asserts that of the more than four hundred trusts enumerated in *The Commercial Year Book*, more than two-thirds are directly affected by the tariff and that there are very few of them that do not get some tariff assistance directly or indirectly. It is unquestionably true that the existence of the tariff tends to shut out foreign competition and to enable the home producer for a time to charge high prices, that is, higher than those of European countries, with their poorly paid labor; but in a country so great as ours, and with capital so abundant, there is always a probability of vast internal competition, *provided the tariff is maintained.* If the tariff is abolished and if foreign producers can, in fact, produce so as to sell more cheaply, then there is little hope of the springing up of new domestic competition. The means which the tariff reformer would employ for the purpose of reducing prices, would mean the destruction of American industries.

That there have been abuses of the tariff by some of our protected industries seems quite certain. It is a well-known fact that for many years various lines of manufactured goods have at times been sold for export abroad at lower prices than at home. Tariff reformers, like Lawson Purdy and Byron W. Holt, have made this statement and have cited numerous instances as proof of the charge.

That our export prices have occasionally been lower

than domestic prices, was admitted in a recent address by Samuel Adams Robinson, of the American Protective Tariff League, but his explanation is, that this course was exceptional; that it occurred in the four years of depression following the free trade triumph of 1892, when American manufacturers were compelled to sacrifice profits to a considerable extent in order to find a foreign outlet for their surplus products; that these years, during the administration of President Cleveland and the agitation attendant upon the repeal of the McKinley law and the passage of the Wilson tariff bill, so unsettled American business affairs that the period became one of national over-production and under-consumption; that the purchasing and consuming power of the nation, as a result of the stagnation of business, became greatly diminished, and, in consequence, manufacturers and other producers were compelled to reduce prices below the point of fair profits in order to obtain ready money, and in this way only were they able to keep their plants in operation and their labor employed. Goods were marketed abroad, so Mr. Robinson concedes, at figures which left little or no margin of profit, and sometimes at an actual loss. But it is contended that now, with prosperity at hand, export prices are "much nearer on a parity with domestic prices;" and the following reasons are given for the allowance by manufacturers of greater discounts on goods sold for export than on those sold to domestic consumers, viz., "spot cash payment for export goods, whereas in domestic trade long credits are the rule and spot cash the exception; and the additional fact that in marketing his product through the export trade, the manufacturer is at no expense for advertising, maintenance of agencies and other items that add to the cost of distribution, amounting in the aggregate to fully

the difference between the export prices and domestic prices." Such is Mr. Robinson's argument.

While occasionally there may be special circumstances and exceptional conditions which justify American manufacturers in these discrepancies in prices, and while it is true that after a given quantity has been manufactured a surplus may be made and sold at a lower rate, yet the presumption must always be that when American goods are shipped in large quantities abroad, and sold for less than in the home market, the producer is gouging the American people; and that the tariff is not a necessity to the maintenance of such a business, but that it may be a means of robbery and extortion. This presumption becomes conclusive when any American product is thus uniformly sold abroad. For the head of any industry which has been fostered by an American protective tariff thus to rob the American people is the case of a dog biting the hand that feeds it. It is the people and not the manufacturers in such cases that need protection. The continuance of the tariff upon an article sold abroad cheaper than at home can be justified only by the clearest evidence, brought out after the fullest and fairest investigation, establishing beyond a shadow of a doubt that such sales are unusual and exceptional; and that the ability to undersell producers and other competitors in the foreign markets is due to temporary market conditions.

Although, in all cases where domestic producers have built up a foreign trade, and have uniformly sold in a foreign market at a less rate than in the home market, they have conclusively demonstrated their independence of the tariff, and the tariff should therefore be removed or lowered, yet to advocate free trade or a general reduction of tariff duties on all products, or upon the majority of our imports, as a cure for trust evils, would be the height of

folly. It would be a remedy illogical in principle, and it would be worse than criminal, because it would be to ignore all the lessons of experience. The remedy for trust oppression is not to be found in the death of competition. But if the tariff is removed so that foreign competition may be potent, the foreign competition will crush out domestic enterprises, if, indeed, the foreigner is the cheap producer and can sell at a lower price, as the would-be destroyer of the trusts and the tariff contends. The evil of the trust is that it so limits competition as to become apparently, if not in reality, a monopoly. The effect of the tariff, it is true, is to shut out foreign competition. But a century of experience has proven to the people of the United States that, while the tariff limits foreign competition, it has built up and fostered domestic competition. The trusts may strive to kill that competition; but our experience with them proves that they can not permanently do this. It is not possible for them for any length of time to destroy even American competition, so great is the amount of uninvested American capital, so limitless the energy and enterprise of its citizens. The only thing that has ever yet been able to kill American competition has been the low tariffs which permitted the product of the cheap and degraded labor of Europe to displace the product of American factories. Any movement to kill trusts by the adoption of general free trade can succeed only by stifling American industry. It would kill not only our great consolidated enterprises, but all our individual ones. Whatever may be the theoretical advantages of free trade, the practical experience of the American people has, to say the least, made them reluctant to try it. To fight trusts with free trade is to conduct a campaign with the smokeless factory chimney as the chief weapon; and whatever nation makes that attempt, or whatever party advocates such a

contest, is sure to go down in defeat. We Americans pride ourselves upon being a practical people. We fancy we know a good thing when we see it; we are content to let well enough alone. Like the burnt child, we dread the fire. The great panic of 1893, the utter depression of business, the stagnation of industry, the wretchedness and misery that followed all the uncertainty that was occasioned by President Cleveland's attempts to change our tariff policy, are too fresh in our recollection to induce us again to undergo that experience. The present prosperity of the country—with our factories and mills all running, many of them overtime; with our exports increasing; with our credit unquestioned; with the gold of the world flowing into our country—is something that we do not lightly care to throw away. As we look back over a century of national development and industrial progress, we see periods of recurring panics and find that they were always forerun by attempts to abolish that system of tariff which aimed to protect and foster industry as well as to raise revenue. We see that every attempt to reduce the tariff to a purely revenue basis resulted in larger importations of foreign goods, in diminishing production of American articles, in the suspension of industries, in labor unemployed, in the reduction of wages, in the loss of business confidence, in an outflowing of the wealth of the country, in a decrease in the revenues of the government, and uniformly and without exception in lessening the consuming powers of the people. But whenever there has been a tariff large enough to represent the difference between the American standard of living for the American workmen and the degraded standard of the labor of foreign countries, we have witnessed a revival and activity of American industry; and American workingmen have been profitably employed at good wages, enabling them to enjoy the comforts of Ameri-

can civilization and to become self-respecting, independent citizens. The government revenues in these times have always exceeded the expenditures, money has flowed into the country, the prosperity of the manufacturer and wage-earner has stimulated the demand for the raw materials of the country, and the wealth created by diversified industry has brought prosperity and happiness to the whole people; and, further, the tariff has always resulted in stimulating so many industries that an active domestic competition has arisen, and in the end American prices have been reduced below those of foreign competitors.

In the campaign against trusts very much will be said against the tin-plate trust. To what extent, if at all, this trust is extortionate in its present prices, and to what extent the tariff is the cause of it, are questions, the answers to which involve such a study of market prices that they do not fall within the scope of this work. If the tin-plate trust is charging an extortionate price—that is, a price which will yield more than a fair profit after paying good American wages—then let the tariff on its products be lowered or even abolished. But merely because the price of tin-plate has been greatly advanced during the last year and a half, we should not rush headlong to the conclusion that it is due to the tariff. George Gunton, in a paper published in *Gunton's Magazine* for March, 1899, in speaking of trusts that were short-sighted enough to take advantage of temporary opportunities to tax the public by increased prices, said of the tin-plate trust (italics are ours):

"The tin-plate trust is one of these offensive examples. This is an industry which practically could not have existed in this country but for the legislative aid of the public. Until the tariff —a very high one at first—was placed upon foreign tin, the tin-plate industry had no existence in the United States. It has been

born and nurtured by the protective aid the public has given it. Its very existence is due to the good will and political good sense of the United States. The tin-plate trust is one of the 'fool examples' of using the trust organization to put up the price. Of course it would be unwise for the public to hamper a really helpful industrial movement because speculative 'grabbers' get temporary possession; nor should a few mistakes of this kind be permitted to be used effectively against the protective tariff as a general policy. Nevertheless it would be perfectly safe and the part of good policy for Congress to pass a law empowering and instructing the Secretary of the Treasury to withdraw the protective duty from all products the prices of which are raised by trust organizations. *In short, the moment a trust organization raises the price of a product enjoying any degree of protective duty, it should thenceforth be put upon the free list and become subject at once to world competition.* If the organizers of trusts in any line have not economic sense and public spirit enough to refrain from using their concentrated power to tax the public by increasing prices, the public should at once withdraw any protective advantage it has given to that industry. *The primary object of protection is to make it possible to stimulate the development of domestic industries; but when industries have become established and proceed to take advantage of this protection for monopolistic, price-raising purposes, they should at once be thrown on their own competitive resources. This would be in harmony with strictly economic policy, and might have a wholesome effect upon the movement of trust reorganization.*"

We endorse most heartily all that is said in the article that has been quoted, in so far as it lays down the proper tariff policy to pursue with reference to trusts; but it is only fair to say that two months later, in another article in his magazine, Gunton stated that, after subsequent investigation, he had become satisfied that the facts relating to the tin-plate trust had been largely misrepresented and, after carefully considering, in this second article, the rise in the price of tin-plate and also the increase in wages during the same period and the advance in the prices in the raw materials entering into tin-plate, he came to this conclusion:

"Strictly speaking, then, the rise in wages and raw material in the manufacture of tin-plate has been slightly more, or at least fully equal to, the increase in the price since the trust was organized. The increased economies of the trust probably amount to more than this. They have probably converted what was a loss to some, no profit to many, and a small profit to only a few into a more liberal profit for all, and it may fairly be expected that the trust will share this undivided profit with the community before long in a further reduction of prices. We are glad, however, to be able to believe that whatever increased profit the trust is now making it is not getting it out of the rise of price.

"It is worth noting in this connection that the price of tin-plate, with the increase of 11 per cent in wages, is still (May, 1899) $1.10 a box less than it was when we relied on foreign supply for all our tin-plate under free importation. What has really been accomplished is this: the tin-plate industry has been transferred to this country; whatever profits there are, now go to American investors; the wages expended in that industry are distributed to American laborers; these wages have been increased since the trust was organized 11 per cent; the producers are undoubtedly making a good profit, and still the product is sold to American consumers at $1.10 a box, or 22 per cent less than before the tariff was adopted and the trust organized."

If upon investigation (and certainly the rise of the price of tin-plate demands investigation), it should be found that the price of tin-plate has been unduly raised; if, as has been asserted by some, the tin-plate trust, through subsidiary companies, controls the manufacture of the raw materials that enter into it, and the increase in the prices of those materials is only an indirect way of concealing the inordinate profits of the trust itself, then the tariff on tin-plate should be removed at once. There is, and there can be, no question about this. Republicans will vote "aye" on such a proposition as readily as Democrats. But those who are truly anxious to remedy those evils of trusts, namely, the lack of competition and the imposition of high prices, rather than to procure

the adoption by the people of their theories as to free trade, should never forget that the tariff on tin-plate caused the establishment in the United States between the time of the passage of the McKinley bill in 1891, and 1898, of forty tin-plate plants, in which there were two hundred and eighty tin-plate mills, and that the price of foreign tin-plate when it was on the free list just prior to the passage of the McKinley bill in 1891, was $5.10 per box, while the highest price that has ever been charged by the American trust has been $4.80 per box. Moreover, when it is said that the combination prevents the establishment of new tin-plate mills, let it not be forgotten that the trust, if it is a monopoly, has acquired it by other means than the tariff. Let us quote Byron W. Holt, of the New England Free Trade League, who cites the tin-plate trust as the typical trust that is fostered by the tariff:

"To make certain that they would be able to put and hold prices up to the Dingley duty limit, they clinched their trust, it is said, *by making a five-year contract with the producers of tin-plate mills*, which practically prevents others from starting in business during this period. They also, through their relations with the chief steel-bar producing companies, obtained such control of this principal raw material that even if an outsider could obtain a mill he would still be unable to produce tin plates for lack of raw materials."

It would thus appear that something besides the tariff is to blame even in this case. But we have no hesitation in saying that *whatever may have been the means employed*, if the tin-plate trust has a monopoly, and if it is holding prices up above the fair profit mark, the monopoly should be killed. If domestic competition has been *in any way* strangled and cannot be revived, then, foreign competition should be courted in this particular enterprise.

While foreign competition may be a means for killing an American monopoly, is it sure to kill trusts? If the

protective tariff were removed and we initiated the policy of free trade, would trusts be dissolved? Would the various business enterprises which now form them, return to the old methods of individual production and distribution, to unrestricted competition and to price-cutting among themselves? Would not the result be as follows? In so far as American industries, by reason of the higher wages of American labor, or the newness of their enterprise, were unable to produce as cheaply as their foreign competitors, would not the incentive to the establishment in this country of new competitive enterprises be removed? Would not all the existing establishments in those industries, finding under free trade a keener competition, be more than ever compelled to combine and consolidate and form trusts in order to save themselves, if possible, from ruin? Would domestic competition be left in those industries in which foreigners could, in fact, produce more cheaply? Would there remain the possibility of any domestic competition in these industries? There certainly would not. What would be the effect of the foreign competition? The heads of the existing domestic enterprises, which would necessarily be amalgamated into an American trust, would make a fight for life, a struggle to keep afloat, and rather than go into bankruptcy they would adopt every resource that would enable them to escape the ruin. Two ways of meeting the foreign competition would at once suggest themselves, and would be immediately adopted,—the reduction of wages and the reduction of the price paid for raw materials. On the part of the employers and producers there would be absolute inability to pay high wages and high prices for raw materials, and on the part of the wage-earner and the farmer there would be no means of obtaining high wages and high prices. It would be low wages or no work; it would be low prices for raw materials

or no market. Wage-earners could not look for other employers in those industries, because free trade with nations that were cheaper producers would be an obstacle to the establishment of new enterprises in that industry. The American farmer would then find that he had but one buyer,—one buyer now and no prospects of more buyers in the future,—one buyer, and even he could be a buyer only so long as he could buy most cheaply. On the other hand, if a tariff were maintained which recognized the difference between the cost of production under American conditions of labor and under foreign conditions, there would always be, not only the possibility, but the probability and the ultimate certainty of the establishment of new factories and new mills in those various industries. The very possibility, even if it never developed into the actuality, would always tend to raise wages and to keep up the prices of raw materials, while, furthermore, the manufacturer being sure of the great and valuable American home market, could dispose of at least a part of his product at a profit which would enable him to recoup the amount paid in high wages and good prices for raw materials The protective tariff can never be abolished to the advantage of the American people until American labor has become as cheap in productive power as that of the degraded labor of Europe. We are willing to concede that the difference in the cost of labor is by no means clearly shown by the difference in wages. The greater productive power of the American laborer may make him much cheaper at two dollars per day than the Englishman at four shillings ($1.00), or the Jap at the equivalent of fifty cents; but we are satisfied that notwithstanding American manufacturers employing American labor and using American machinery, can overcome much of the advantage which the employer of foreign labor has, yet the standard of living of the Ameri-

can workingman is and must be kept so much higher than that of the cheaper labor of Europe and the degraded labor of the Orient, that the American labor is more expensive, and that a protective tariff is essential to the maintenance of the standard of civilization which the masses of this country to-day enjoy, and which, pray God, they may never lower.

Let us further consider the effect of free trade on trusts. When we have abolished the protective tariff for the purpose of killing trusts, have we succeeded? Very likely we have prevented the creation of new establishments in these industries in the United States, and without doubt the existing ones have combined together to save themselves from extermination. Possibly, they will be crushed out by foreign competition; if so, the American trust is crushed, but American industry also is crushed. More likely, as has been intimated, in the desperate struggle for life, wages and the price of raw materials will be reduced to the level paid in foreign countries. But there is one other possibility or probability, and that is international trusts. We already have them in many industries, and when competition becomes so fierce that American industry enters upon its death struggle, we will undoubtedly have more of them. What would be the effect of international trusts upon American industry? Whenever such trusts were formed they would locate their machinery and capital where they could produce most cheaply. All their capital and moving machinery would be removed to the country where there could be the cheapest production. Usually that would be the country where labor is most poorly paid. It would hardly be America. The standard of living is too high here to permit of extremely low wages. American labor is more intelligent and inventive and productive than that of other countries; but, though

machines are invented largely by Americans, their use can be taught to the cheap laborers of Europe, and the still cheaper laborers of Japan and the other countries of the Orient. The capital to furnish the machines will go where it can find the labor that is cheapest per amount of product, unless, by moving, it is barred out of a valuable market. It is the easiest thing in the world to take the capital abroad; it is very easy to move the machinery; it is difficult to move the laborers, especially from a place where there prevails a high standard of civilization to one where they must accept a lower standard. To secure the American market to the American manufacturer, it is still necessary as to very many products, to impose a tariff. Abolish it, have free trade, and if you have international trusts (it is to be remembered there are already some,—and increased competition with foreign countries because of free trade means more), many American industries will be closed and hundreds of thousands of laborers will be thrown out of employment. The cheapest seller will command the market, unless barred out by a tariff or embargo. The American market is the best in the world. But without a tariff the Japanese are more likely to possess the American market than the Americans.

In considering the effect of the tariff on trusts, it is to be noted that free trade countries, too, have their trusts, and, further, that the greatest of all American trusts, the Standard Oil Company, is not aided by the tariff.

To abolish the tariff upon any article, then, merely because it is largely produced by a trust would be an act of folly. To abolish the tariff, because a trust has been formed, might in time result in destroying the domestic trust, for even if the prices charged by this trust were not in excess of a fair profit but were greater than the prices of foreign goods,—as they would undoubtedly be,—the industry

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itself would ultimately be destroyed by the abolition of the tariff. *But to abolish the tariff on any article at any time when the American producers of it are charging a price beyond the fair profit mark after paying American wages, whether those producers be combined or incorporated as a trust or working separately, is right and proper and necessary.* It would be a potent remedy against extortionate prices. Furthermore, it would be consistent with the theory of protection, which is that a tariff upon importations of foreign products will foster domestic production, encourage the establishment of a number of factories which will compete with each other, and which will gradually perfect their machinery and methods, until not unlikely they will be able to produce as cheaply as their foreign competitors. The tariff never was intended—so far as its protective features are concerned—to be more than equal to the difference between the cost of production in foreign countries and the cost of production in the United States. It was intended only to give to home manufacturers an opportunity to meet the competition of foreign manufacturers.

A fact pregnant with significance concerning the tariff and our industries, is the remarkable growth of our exports of manufactured goods in recent years. During the ten months ending with April, 1899, the United States exported about two hundred and seventy-six million dollars' worth of manufactured goods, eighteen per cent more than in the corresponding ten months of 1897 and 1898. This amount considerably exceeded the amount of our imports of manufactured goods and it covered a wide range of products. It must be conceded, we believe, either that we can produce those products more cheaply than our foreign competitors, or else that this great amount of American products was sold to the foreigners at a less rate

than was charged to Americans. No duty on these products would appear to be necessary for protective purposes; and it is equally difficult to see how any revenue could be derived from articles which we could sell so cheaply that we export them instead of import them.

If American exports of manufactured articles for the year ending June 1, 1900, aggregate $430,000,000, as has been estimated, then there must be many articles which we can manufacture cheaper than foreigners, and to retain a tariff upon them is to expose Americans to extortion. If such products are sold in foreign countries below cost, Americans pay the amount of the loss. As the cost of production decreases, the rate of tariff should be lessened accordingly. If it is not, a trust may be formed and the price, for a time at least, kept up almost to the point which will represent the cost at which the goods produced in the foreign country can be laid down on our shores. Trusts have undoubtedly been formed to obtain high tariffs and to combine local competitors for the purpose of exacting as high a price as can be asked with foreign competitors barred out. The tariff probably does assist some trusts which desire to maintain high prices and to monopolize a certain product. The tariff when so used should be abolished. It is, however, the extortionate price that calls for such action, not the mere fact of industrial combination. When free trade is proposed as a general panacea for trust evils, to be applied to products which can not be produced as cheaply in this country as in foreign countries, we should not hesitate to refuse to adopt the scheme. Free trade is more likely to produce panic than to be a panacea.

CHAPTER XIII.

TRUSTS AND EXPANSION.

It is a fact noted by historians of political events that whenever a great crisis in human affairs has occurred, there has sprung up a great master of men. Every great epochal movement in the world's history has brought forth its leader,—the man with peculiar qualifications for the solution of the new problems and the discharge of the new duties. The annals of America are replete with instances. In the trying times of the Revolution, when patience and firmness and self-restraint were so requisite, there was found one man who possessed these qualities in a pre-eminent degree; Washington was born of the times, God-given and God-directed. Later when the country went through the greater strife of the Rebellion, when the perpetuity of the Union was at stake, the needs of the hour found in Lincoln the only man possessing the forbearance, the endurance, the charity, and the utter lack of malice which alone could hold together the North with all its varying views. Industrial history is quite as full of instances of a Providential care for the wants of mankind as is political history. Whenever human needs have required some new product, whenever the visible supply of old products has become completely exhausted or so diminished as to be unable to supply the demand, either new quantities of these products have been unexpectedly discovered, or a substitute has been found in abundance. When the whaling

industry had passed into decline and the supply of sperm oil for purposes of illumination was rapidly becoming exhausted, kerosene in almost superabundance was discovered. When our country was being denuded of its forests, and the use of wood as fuel had become almost impossible, great beds of anthracite coal were discovered. When the invention of the steam engine revolutionized the industrial world and unfolded vast possibilities in the manufacture of all the commodities that make our modern civilized life what it is, there at once arose the necessity for an enormous supply of soft coal; and, forthwith, beds of soft coal of vast extent were discovered, amply sufficient to supply the demand. When electricity began to be applied in a multitude of industries, a great need was felt for copper; and unknown copper mines of great productivity were discovered. We attribute these provisions for all our new wants, as they spring up, to an over-ruling Providence, to destiny, or to that talent of invention and discovery which is the child of necessity, according as we consider the matter from a religious, a historic, or a scientific standpoint. This same Providential care for human needs is seen not alone in the birth of leaders for great crises and in the supplying of products necessitated by new inventions that have given birth to increased desires, but also in the broader field of political development and commercial extension. Commercial freedom began in England in the fourteenth and fifteenth centuries. Prior to that time the sole important industry of the country was agriculture, limited and fettered by the feudal system. In the latter part of the fifteenth century, when commercial life, fostered by the new commercial freedom, began to manifest itself, a new world was discovered furnishing a field for the exercise of commercial activity.

The most striking fact in the financial history of the

day is the growing surplus of capital. One of the great problems which confront people is where to find fields for the profitable employment of saved-up wealth. For at least a quarter of a century there has been a diminishing return from investments; and the prices of first-class securities have been constantly increasing. The matter is of moment not only to the great capitalist, who, perhaps, can be left to take care of himself, but also to the widow and orphan dependent upon the savings of the deceased husband and father; and it is of equal interest to the wage-earner, who works and toils in youth and early manhood in the hope of laying up something for the inevitable rainy day and for the time of old age and decrepitude.

The most striking fact in the industrial history of the day,—a fact which is, indeed, but another phase of the fact of a surplus of capital which has been observed in the financial world,—is that the productive powers of the civilized nations are now far in excess of their own powers of consumption. New inventions and improved methods in industry have made the material advance of the last one hundred years conspicuous among all the centuries. At the close of this century we find that with their machines and their perfected business organizations, the industrial nations of the world possess a power of production which is much greater than the effective demand. It is only lately that this has become true of the United States. Until recently we have been a borrowing nation, and a nation of importers of manufactured articles. But American resources developed by American enterprise, managed with American thrift, have placed us in a position where, within a year, we have loaned $25,000,000 to Russia, and are rapidly becoming a creditor nation. American ingenuity and inventive talent have brought it about that, notwithstanding that we are the greatest of agricultural nations, and

notwithstanding that we eat and drink and wear and consume more per capita than any other nation of the world, and notwithstanding that our home market of eighty millions of purchasers is the richest in the world, and notwithstanding that our manufacturing industries are even now only in their infancy, these industries are capable of supplying the demands of at least one hundred and sixty millions of people. We can manufacture twice as much as we can consume, or to put it in a light which will show the danger of the situation, half of our factories and mills can supply all that we can consume, while the other half remain idle; half of those employed in manufacturing can make all that we need, while the other half remain unemployed. The evil consequences of over-production have been alternate periods of feverish activity and stagnant depression; first, employment over time; next, a shutdown. Business has been irregular and spasmodic; competition has followed,—keen, intense, bitter, destructive, and finally self-destructive. There is but one alternative for us: either lessened production, diminished employment and lower wages, ruin, and bankruptcy, or else new markets and larger outlets for our surplus products.

The formation of trusts is one of the means adopted to remedy these evils. Expansion of territory, extension of commerce, is the other remedy,—a remedy supplemental and, possibly, alternative. Either our whole industrial system is likely to be revolutionized at once, or else the evil day must be put off by the civilized manufacturing nations of the world turning their surplus capital into new fields and using it in the development of the decadent and undeveloped countries of the Orient and the tropics. The problem of over-production,—the problem of trusts,—is momentous. It cannot be solved in an instant. We need time for study, for observation, for consideration, and for

experimentation, but all the time while we are studying, observing, considering, and experimenting, relief,—temporary relief, at least,—from the evils of over-production may be had by the development of foreign markets. The evils which trusts are formed to correct *may in this way be obviated;* at any rate we can be relieved of the immediate stress.

The United States until within a few years has done nothing to exploit foreign countries. It has developed the amazing resources of its own country. Those resources are not exhausted, but they have been very generally appropriated and developed. For some time the U. S. Commissioner of Public Lands has been reporting that the vacant lands of the government consisted principally of timbered or arid lands, and that there was little public land suitable for cultivation without clearing or irrigation.

The great American people who, ever since their national history began, have been steadily and constantly advancing until they have expanded from the narrow strip along the Atlantic southward to Mexico, and westward to the Pacific, and northward to Alaska and the Arctic, have now reached the point where, notwithstanding the lack of the complete development of their resources, there remain few resources that are wholly undeveloped. Economic problems in America, since the formation of the Republic, have largely worked out their own solution. Millions of immigrants have come into the country, but the constant pressure upon the East has been relieved by the steady flow of emigration to the unoccupied and fertile lands of the West. The rapid growth of the country has stimulated manufacturing industry in the East and North until we have become one of the greatest industrial nations of the world. But the checking of our continental expansion by the occupation of all our best agricultural

land is sure to result in our experiencing new and great economic evils. Unless we expand in other directions, there is sure to be a diminution of the demand for labor. Not so many men can now go West and become farmers and producers; more of them must remain in the East to glut the labor market; and unless new markets are found for our surplus products, new factories can not be established, and many of the existing factories must suspend operation.

The nations of Europe have for two generations been sending to America their surplus labor; but they have done more than that to give employment and to bring wealth to those who have remained. They have realized the fact that there must be enforced idleness of their workers, shutdowns of their factories and mills, unless they found new fields of activity. They have appreciated that those who work are those who create and who acquire wealth. Inequality and injustice in distribution may bring it about that not in every case does all this wealth pass to the individual creating it, but of nations the statement is true without exception. The busiest nation is the wealthiest in proportion to population; but if a nation can produce any one article in larger quantity than it can consume, it must stop the production of it or supply some other country with it. The European countries, especially in the last quarter of a century, have been pushing forward in a race with each other to acquire colonies or spheres of influence, with which they could establish relations of commercial intimacy. Africa has been carved up. Germany, France, and Great Britain, each has its slice. The last named is sure to annex more closely the Transvaal and the Orange Free State. France is pushing her sway over the Soudan. She already has Algiers and Madagascar. Germany is not interfering in these schemes, but she is sure to de-

mand a *quid pro quo.* Italy is trying to obtain a foothold in Abyssinia. In Asia and Oceanica, too, the European powers are colonizing. Great Britain, for over a century, has had the fertile and populous peninsula of Hindoostan, and has gradually extended her conquests and acquisitions. A large part of China has been mapped out into spheres of influence by Russia, Italy, France, and Germany, and though the Mongol empire retains nominal sovereignty, real proprietorship over these spheres seems to be in the several European nations. Russia has developed her vast Siberian territory, has acquired an almost dominant influence in northern China, has virtually appropriated some of its best ports and a large portion of its territory. Japan has taken Formosa and would have seized much of China or Korea, had not Russia intervened. England's colonial possessions are very many times larger than the mother country. By all the European nations an attempt has been made to find new markets and new fields of enterprise, more work for the toiler, more sales for the merchant.

One of the recent consular reports gives some idea of the extent of the colonial possessions of European states. It shows that Great Britain, outside of the United Kingdom itself, possesses 16,662,073 square miles of territory, having a population of 322,000,000; France, outside of the mother country, 2,505,000 miles, with a population of nearly 50,000,000; Germany, 1,615,500 miles, with a population of 7,450,000; Holland, 783,000 miles, with a population of 34,210,000; Portugal, 809,900 miles, with a population of 10,200,000. What these nations are doing in the way of the development of their colonies may be inferred from their railway projects. Russia is building a Trans-Siberian railway almost five thousand miles in length and bringing the Czar's empire into close touch

with Japan and China. A branch of the South Siberian railroad has been extended to the border of Afghanistan, opening up to Russia the riches of Persia and giving her a path towards India. France is about to build a railway across the Sahara Desert from Algiers and Tunis to Timbuctoo and the Soudan. Cecil Rhodes' dream of a railway from Cairo to the Cape of Good Hope is a project that will hardly be long deferred after the termination of the war with the South African republics.

The United States has reached a position where it is obliged to participate in the struggle for foreign markets, and to find new channels into which to turn its surplus capital. These are our great economic needs to-day. Will Providence, or destiny, or human ingenuity—whatever you wish to call it—show us the way in this time of need? It would seem, indeed, as if an over-ruling Providence had, within two years, pointed out to us the way of supplying to ourselves the means. American policy, American tradition, and American interests for almost a century and a quarter have kept us from acquiring territory beyond the continent; but at the close of the nineteenth century, when our interests demanded a wider sphere of activity and enlarged markets, although this tradition and old-time policy hold us back and the timid and hesitating endeavor to restrain the movement of expansion that has never stopped since the time when the thirteen original colonies formed themselves into a nation—at this time, that over-ruling Providence, that evolution, that destiny which is always apparent in the affairs of men, manifests itself, and the need is met. The blowing up of the battleship Maine in Havana harbor, and the prolongation of a cruel and merciless war of extermination against a weak people at the very threshold of our country, involved us in a contest with Spain, the result of which was that without premedi-

tation or design, unexpectedly, if not reluctantly, rich, fertile, and populous islands in the Orient came into our possession and control. The path of duty, the path of destiny, has been suddenly opened for us in the East. For our over-production and our surplus capital we have suddenly found a relief, even though, perhaps, temporary. We want constant work for our toilers, not half time; fair prices for our products, not sacrifice sales; we produce more than we can consume; we need markets; suddenly opportunities are given us to acquire markets, and on terms as favorable as those offered to any nation in the world. True, we could always sell our goods wherever men were willing to buy, but trade, to a great extent, follows the flag. It is largely influenced by political connections; it is frequently barred or hindered by arbitrary laws enacted in defiance of economic laws.

We could never have persuaded ourselves to attempt to take possession either of the Philippines or of Porto Rico, had they not come into our power as the result of a war which never would have been waged had not humanity sounded the tocsin. But now, when those islands have come into our power, when their pacification and their government, for a time at least, fall as duties upon us, when we see that perforce and involuntarily we have become implanted in them, traditions and old-time policies are questioned and quizzed in the light of the facts of to-day. Just what we shall do with these new island possessions, just what form of government they shall have, to what extent they shall have complete self-government or participate in federal legislation with and over us, are questions not yet settled. But the American people, as self-confident, as self-reliant, as courageous, and as tenacious as ever, demand the retention and pacification of the islands that have become theirs. That, at least, is the policy of

the Republican party. He who would give them up would be guilty of a desertion more base than that of the heartless mother who leaves her child on some one else's doorstep. The Democracy would leave the Philippines to anarchy. The Republicans would pacify them and develop their resources.

The Philippines are themselves a vent for the industrial pressure that trusts are designed to shut off. They have ten millions of inhabitants. Although their wants are now of the simplest kind, they will increase with civilization. Their tropical fruits, their grasses, their other products, find a natural market here. On the other hand, as they advance in civilization they will furnish a great market for our manufactured articles, especially cotton goods.

We of the United States need the Philippines and Porto Rico, not only as markets for our surplus products, but as fields for the employment of our saved-up capital. We need the former, not only because of their intrinsic worth to us, but because they are the key by which we can unlock the door to China's markets.

The commercial value of the Philippines to America has been carefully estimated by Hon. John Barrett, former United States minister to Siam, who, during his leaves of absence from his post, has traveled over nearly all the countries of the Orient, and has made a careful study of commercial conditions and possibilities. His opinion is that of one of exceptional information, and the greatest weight and consideration should be given to the following statement in an article by him on the Philippine situation, published in *The Review of Reviews* for July, 1899:

"Judging from comparative data after looking at what has been done by the Dutch in Java, by the British in Burmah and in the Malay Peninsula, and even by the French in Indo-China, the

United States should develop a foreign trade in the Philippine Islands within the next fifteen years of over $100,000,000."

That the benefits of the development of trade with the Orient will be in no sense sectional; that they will not only furnish a relief to our manufacturers who stand so much in need of new markets, but that they will benefit the American farmer and increase the market price of his products, is also the testimony of Mr. Barrett. We quote from an article, in *The North American Review* of August, 1899, written by him:

"The Far East, particularly China, affords markets which should arouse the interest of all sections of the United States, and make the country stand unanimously for a firm foreign policy. The West and East and the North and South are equally concerned in maintaining the freedom of trade and preserving our treaty rights throughout China. Were it merely a sectional issue, there might be a grave question as to the advisability of taking a strong position as to the future of the empire. China and other Asiatic countries want all the flour and timber, and a goodly portion of other kinds of food and raw products, which California, Oregon, Washington and neighboring Western States can supply; they want the manufactured cotton and raw cotton of the South in increasing quantities, and the time may come when this Pacific-Asiatic demand will take up the surplus supply of the South's great staple; they want the manufactured cotton, iron, steel and miscellaneous products of the North and East, together with unlimited quantities of petroleum; they want corresponding manufactured products of the central West, and there is no reason why there should not be developed among the Asiatic millions a demand for the central West's great staple, maize (or Indian meal), such as has been created for flour. I draw no fancy picture, but simply express my honest opinion after five years' careful study of the field which I am discussing.

"The question of protecting such market appeals to capitalist and laboring man alike. It offers the former an opportunity for the investment of his capital, and it increases the employment and wages of the latter by providing a greater demand. . . . The farmers of the West and South can unite with the laboring men

of the North and East in supporting the shippers, manufacturers and exporters in developing a strong Asiatic policy. Were the door of China closed against us to-morrow, it would mean that labor and capital alike would suffer immeasurable harm. They should, therefore, see that it is never closed.

". . . If the great northern provinces of China now require $7,000,000 worth of our cottons, there is no valid reason why they should not in ten years from now consume $20,000,000 worth. A few years ago, $3,000,000 represented the value of the trade. When we consider that the cotton mills of New England and the South are supplying this demand in Manchuria, and that they have even been kept running when other mills have been closed, there is every reason why those two sections should join together in insisting that the open door shall always apply to Manchuria.

"American exports to the Far East to-day approximate $40,000,000, if the actual value of everything which leaves our shores is counted; but, basing our estimates on reasonable grounds, there is no reason why they should not expand in the near future to $150,000,000, and our total exchange reach $300,000,000. Few people appreciate the enormous business that is now done up and down the Pacific Asiatic coast. It amounts to $1,000,000,000, gold, *per annum*, and represents 500,000,000 people. Of this, the imports are over half. Certainly it is logical to hold that the United States should be able to supply at least a third of the products now imported from foreign lands. China's trade amounts to $250,000,000, with a population of 350,000,000 people. If her wants ever expand in any such degree as those of Japan and other countries which have awakened from their Asiatic lethargy, her foreign trade should reach, on a conservative estimate, $500,000,000. Were the same ratio of population to trade, or one to two, which exists in all other countries of Asia, progressive and retrogressive, applied to China, her future foreign exchange could be estimated at $700,000,000."

Similar testimony is that given by Mr. James S. Fearon in an article in *The Forum* for January, 1900:

"There has been no more remarkable expansion of any department of our commerce than has taken place, of late years, in our exports of cotton cloth to China. . . . And yet, it is perfectly true, as the members of the Lyons Commercial Commission concluded after a tour through the interior of the country, that 'foreign trade has merely scratched the surface of the possibilities of China. The

great majority of the Chinese are familiar neither with foreigners nor foreign products.'"

In an earlier chapter on the Trusts and the Farmer, we have shown the estimates of J. C. Hanley, of the National Farmers' Alliance of America, as to the immense value, in dollars and cents, of the demand of the Orient for wheat and cotton; and his conclusion that this demand would increase the market price of American wheat at least fifteen or twenty cents per bushel.

It will be argued by the opponents of expansion that annexation or political connection is in no sense necessary to the acquirement of a foreign market. It will be said that the trade follows the price and does not follow the flag. Whether or not this is true, it is certain that the flag is necessary to protect the trade, and the history of colonization shows that the benefit of the larger market usually falls to that country whose capital is employed in the development of the market, especially if it is that country which, by reason of the exercise of political control, maintains the order and government which alone is the guarantee of the security of the investment. This subject has been carefully considered by Mr. O. P. Austin, chief of the United States Bureau of Statistics, and he has collated these significant facts. In the year 1897, Great Britain supplied forty-one per cent of the products imported by her colonies, but she was able to supply only fourteen per cent of the importations of countries having no political connection with her. Even to the United States, a country with which she has direct means of communication, and the people of which speak the same language and have many interests in common with her citizens, she supplied less than twenty-two per cent. France supplied her colonies with sixty-two per cent of their imports, but she supplied only 9.33 per

cent of the imports of other countries. It is to be borne in mind, furthermore, that in the case of Great Britain there were, at the time mentioned, no discriminations in the tariff laws of her colonies in favor of the products of the mother country as against countries that were the competitors of Great Britain. Great Britain, in the year 1897, found in her colonies a market for nearly $400,000,000 worth of goods, all of a kind for which the producers and manufacturers of the United States are earnestly seeking a market. Her exports to her colonies were forty per cent greater in the year 1897 than were the total exports of manufactured products to the entire world from the United States in that year. Great Britain's exports to her colonies constitute over a third (34.4 per cent) of her entire exports. But commerce has another side than exportation. There can be no commerce without exchange; no exports unless there are some imports. In 1897 Great Britain took fifty-seven per cent of the exports from her own colonies, while from countries not a part of the British world she took but twenty-one per cent of their exports.

Our own experience in the case of the Hawaiian Islands amply proves how political connection stimulates trade. The following article, clipped from *The Auburn* (N. Y.) *Daily Advertiser* of June 9, 1900, shows, at once, the increase of our trade with these islands of the Pacific lately annexed by us; also the meagreness of our trade with countries of much larger population with whom we have no political connection:

"Senator Lodge called attention to the fact that the trade between the United States and the Hawaiian Islands has increased from $11,500,000 in 1895 to $33,300,000 in 1899, and cites it as an illustration of what may happen with Porto Rico and the Philippines. 'These colonies,' he says, 'will absorb much of our surplus manufactures and agricultural products, for they must draw their flour and their provisions and most of their manufactured merchan-

dise from this country. Our trade last year with the Hawaiian Islands,' he says, 'was greater than with the whole of the Australasian colonies with their 5,000,000 of people. It exceeds by more than $3,000,000 our trade with the entire continent of Africa; it is 150 per cent greater than our trade with all the Central American states; it is equal to 30 per cent of our trade with the whole of Canada; 50 per cent greater than our trade with all the British West Indies; half as large as our trade with Brazil; 500 per cent greater than our trade with Venezuela, and comes within $6,000,000 of being as large as our trade with the entire empire of China.'"

It should not be forgotten, in considering this matter of imports from colonies, especially when those colonies are tropical or Oriental, that the development of their resources is largely by means of the capital of the home country, and the prosperity of the colonies is shared in by those who invest their money in them. British statisticians have estimated that at least $2,000,000,000 of English capital have been invested in her colonies. If so, they have furnished an outlet for the use of the surplus capital of the United Kingdom and the profits on the export trade of the colonies go to swell the wealth of the citizens of the home country as well as to give prosperity to the inhabitants of the colonies themselves. The limits and the purposes of this article do not permit any consideration of the great benefits to the colonies themselves by the development of their resources by means of the capital of the colonizing country. We have been considering colonization and expansion only in so far as they affect the question of trusts.

Let us summarize. Territorial expansion seems to aid in the acquirement of foreign markets. Foreign markets are absolutely necessary to America and to all the industrial nations of the world. Without those markets the people of these countries are the victims of over-production. Unless they acquire new outlets of trade, they

must diminish production, lessen the employment of labor, lower wages, and suffer all the evils and hardships and miseries of industrial depression. Trusts have been formed for the purpose of correcting these evils. Expansion is the only alternative or supplemental remedy. Expansion may, however, not only correct the evils which trusts are designed to correct, but it may open up to us such commercial possibilities that in turn the trusts will have to be continued, not for the purpose of regulating and restricting production, but as the most perfect organization for the seizure of the great opportunities of trade. The trust that restricts production and the trust that reduces the number and the wages of the employed is a necessary evil resulting from destructive competition, so long as we do not find markets for our surplus products in those countries which have not yet attained their industrial development. He, then, who would relieve the present evils of over-production in the United States should favor that policy which tends most surely to give us the foreign market. He who would abolish the trust, in so far as it attempts to restrict production and to lessen the opportunities for work, he who would abolish the trust as an evil agency, should sustain those in charge of the affairs of the state who are endeavoring to give to the American worker the opportunity to supply the increasing wants of those to whom American civilization may be borne.

But when this is done it will be found that those trusts which are only great industrial organizations of enormous capital and power, the trusts which are the cheapest and most efficient means of production and distribution, will be necessary to the development of the trade in the newly acquired market. Enormous capital is essential, and only the well-organized trust will possess the means and the facilities. We have alluded in earlier chapters to the great

foreign market worked up by the Standard Oil Company, which now brings $60,000,000 a year into this country; and to the enormous orders for rails for railways in Russia and China which have been recently given to the great steel concerns of the country; also to the fact that eighty per cent of our exports of manufactured goods are said to be products of industrial organizations so great that we popularly call them trusts; also to the recognition by our German competitors of the fact that it is our large and perfect organizations that are winning for us industrial supremacy. The rapidity of our strides may be judged from the following article, clipped from *The Rochester* (N. Y.) *Democrat and Chronicle* of June 1, 1900:

OUR ENORMOUS EXPORT TRADE.

"It is estimated that during the year which will end June 30th, this country has exported of the products of its factories to the value of about $430,000,000. Taking this record in connection with our agricultural exports, it shows an extraordinary degree of prosperity, exceeding that ever enjoyed by any other nation. The total foreign commerce of the United States for the current year will amount to over $2,300,000,000. Of that it is estimated that $1,400,000,000 will represent our exports to other countries. That is an average of a little over $3,835,616 a day for the entire year. Uncle Sam, it will be seen, is winding up the century with the biggest department store trade on earth."

The conclusion of the whole matter is this: The industrial salvation of the country—the only escape from the evils of over-production which trusts are formed to correct—the welfare and prosperity and hence the happiness of all classes—is the acquirement of foreign markets; but in the development of those markets and in the exploitation of the newly acquired fields of enterprise, gigantic industrial organizations are the most efficient instruments.

CHAPTER XIV.

THE MAN AND THE DOLLAR.

WILLIAM J. BRYAN, in an address delivered at the Chicago Trust Conference in September, 1899, declared himself as favoring an industrial policy which placed "the man before the dollar," and as bitterly opposed to any system which placed "the dollar before the man."

Mr. Bryan's speech is worthy of great consideration, for it calls up one phase of the problem of trusts which is apt to be overlooked, namely, the social phase. Just what this eloquent orator meant by his epigrammatic expression—which, indeed, he quoted as one of Lincoln's utterances—is not perfectly clear, but he probably meant to express his belief that the great combinations of capital, the industrial trusts of to-day, are organizations which enable a few people to earn or to acquire vast sums of money, while working the ruin of the masses. Mr. Bryan, for the purposes of argument, would concede that the trust is a means of cheap production; but he contends that the cheapness of the trust and its savings are the results of depressing the price of raw material, of discharging vast numbers of workmen, of closing hundreds of small establishments, of dispensing with thousands of middle-men, and of saving the losses that come from a liberal extension of credit. It is these hardships and sufferings, and nothing but these, which Mr. Bryan sees in trusts. With the strongest desire to do him perfect justice and with an equal yearning to

throw not even the weight of one single individual's influence in favor of any policy which can be of injury to the lowest or the poorest or the most humble, let us, however, present a few thoughts upon the subject of the effect of the aggregation of wealth upon the welfare of the toilers and wage-earners and those who are popularly called the middle classes and the masses.

It may sound base and sordid and worldly to declare that the amount of a nation's wealth—the abundance of those commodities which have become the comforts and conveniences of modern life—is a fair measure of its progress; that the nation, and as a rule the individual, that is very poor, that is obliged to work incessantly to eke out an existence, is largely prevented from attaining the highest standard of human development. This statement is made with a full recognition of the vast numbers who, though poor in this world's goods, are rich in all the elements that constitute a true and noble character; and in full view of the fact that great wealth is often corroding and debasing, and that it by no means necessarily brings in its train, culture or education or refinement or character. Still, wealth is one of the hand-maids of civilization. It is wealth that makes leisure possible; and it is leisure, or at least that form of leisure, which gives us opportunity for study and travel and social intercourse and recreation, that fosters refinement and culture. The man who has to work all the time except the few brief hours when he sleeps and eats merely that he may gain strength and rest so as to work again, leads a sordid life. The highest type of man can never be evolved from one so oppressed until his earnings—his wealth—have given him more leisure. Edwin Markham's "Man With the Hoe" is the poet's picture of man degraded to the level of the brute because of the lack of leisure and of opportunity to elevate himself

to his rightful position of "man created in the image of God," of man whose place is but a little lower than the angels.

We err very greatly, then, if we ignore the real value of wealth as a cultivating, refining, elevating, and uplifting force. The true policy of the statesman, who would assist the mass of men, is to enable them to obtain wealth. Lincoln's aphorism, which Bryan quotes with approval, "place the man before the dollar," is not correctly interpreted if it inspires a course that prevents the honest acquirement of wealth or creates hostility among those who co-operate in its production. The highest statesmanship is to procure the adoption of such policies as will put the dollar in the hands of the man and let him use it for his advancement and betterment. Place the man before the dollar, but put the man within reach of the dollar. Place the man above the dollar, but in the sense that the man may stand upon the dollar to rise higher in the world. The real question, then, is, "Is the aggregation of wealth in great corporations a benefit or an injury to the masses?" We have shown how Mr. Bryan sees only evil in trusts, but there are very many men of great ability who cannot help feeling that his views are short-sighted; that he has not looked either back into the past, or far into the future; that he has not read aright the lessons of industrial history; that he has not clearly foreseen all the possible dangers of the industrial future.

The limits of this book do not permit as thorough a consideration of this subject as might seem desirable, but in the chapters that have preceded, the matter has of necessity been incidentally touched upon. We can here do little more than to summarize some of the points already made. The significant fact of industrial history is that combination of capital and concentration of effort have always

meant a more abundant production of wealth. Individualism, absolute individualism, is the lowest type of savagery. We can, with the utmost difficulty, conceive of a condition in which each person wholly supplies his own wants; but as we advance to what may be called industrial history, we observe that phenomenon which is known as the division of labor; that system of industry in which a man no longer attempts to make all the things which he needs, or even all of any one thing which he needs, but in which special talent and special aptitude manifest themselves and train themselves in the making of a part of some thing, which it is found can be made more successfully by that person than by others. This has necessitated exchange among men and it has rendered possible the application of machinery, which in turn has been found to be able to produce certain articles or parts of articles in even greater abundance. Just in so far as the division of labor and specialization proceed, co-operation, consolidation, and combination become necessary. The result is that wealth—the things that men need to eat and to drink and to wear and to consume, all become very abundant. Not only does production mightily increase, but there is a more general distribution. This is not only the fact of history, but this is the necessary result, from the nature of things; for the increased product can be disposed of only by cheapening it. The cheapening of the product is sure to increase the demand; the demand for the product causes a demand for labor, and in proportion to the amount of work to be done the wages of the workers are increased. As long as there is competition, and the probability of competition, this must be the result.

Mr. Bryan declares that he sees in industrial combination, the discharge of the worker. To others it seems that unless these agencies of production and distribution, which

save all unnecessary wastes, are adopted by Americans, we must lose the markets that we to-day have, and the mills and factories which are now running must be closed and thousands turned out of employment permanently.

Mr. Bryan claims to see in industrial combination a depression of the price of the raw materials raised by our farmers and planters. Others feel that the danger is that unless those who buy the raw products and manufacture them into finished articles, can do so by the cheapest processes and under the cheapest system of business organization, they must lose their markets and no longer have any need of the farmers' raw materials.

Mr. Bryan says he sees in industrial combinations only the ultimate certainty that the prices of manufactured articles will be extortionately raised. Others see the possibility of lower prices because of cheaper cost of production, and they also observe certain forces that will continually tend to lower those prices.

Mr. Bryan prophesies oppression and extortion by industrial combinations, ill-gotten fortunes for the few, and poverty and wretchedness for the many. By others the danger that is apprehended, is that extravagant methods of production and distribution will reduce America to the relative industrial position of those nations where industry is disorganized and unregulated. Where is there the greatest national prosperity? Where is there the highest standard of individual living? Is it in Spain and Turkey, where wealth is seldom combined and centralized, or in Germany and the United States, with their vast business organizations?

Is there any doubt in the mind of any one that all classes—capitalists, middle classes, or wage-earners, whatever you may choose to call them—enjoy to-day a higher degree of prosperity and a nobler quality of civilization

than they have in previous ages? Have not the comforts of life been made plentiful and cheap by reason of the aggregation of capital? In centuries gone by, people had meat but once a week; houses were without chimneys and without windows; books were so rare that they were chained to the walls of churches; plague and pestilence worked havoc with the poor; the laborer was little better than a slave; he was in abject wretchedness, in political bondage, in densest ignorance; he was not a freeman, he was a serf. The very rich, even royalty, did not have those things which to-day are considered the necessities of poor people, and which every one possesses.

The men of the world who have done the most to advance not alone its material prosperity but its intellectuality, its culture, and its civilization, have been its inventors and discoverers and explorers; its producers and distributers—those who have made wealth more abundant, for the largest production means the widest distribution and the fairest distribution means the fullest production. There have been other emancipation proclamations than Lincoln's immortal paper. They have been promulgated not by statesmen, but by those who have found or fashioned the new things that have transformed industrial methods. An enlarged liberty for mankind was heralded when Watt invented the steam engine, when Stephenson made his locomotive, when Fulton first sailed up the Hudson with the *Clermont*, when Eli Whitney revolutionized the industries and changed the destiny of the South by the invention of the cotton gin, when Arkwright brought forth the power-loom, when Bessemer perfected his processes of making steel. It is these men and the hundreds of thousands of men who have organized and managed and controlled the industries in which all these discoveries and

inventions have been utilized, who have really made industrial freedom possible.

We need have little fear of that capital which is aggregated and consolidated for productive purposes. The wealth which is the menace to the country is that which exists in the form of unproductive wealth. As long as money is brought together for productive purposes it can do no harm to the public. If a hundred thousand dollars or a hundred million dollars of capital, coupled with the toil of thousands of laborers, produce goods of any kind, the capitalists who produce must sell these goods to others before they can obtain any enjoyment or benefit from them. If as a result of the sale they acquire more wealth and again invest it in productive enterprises, they inevitably create a greater demand for labor, and it follows necessarily that there must be higher wages for the workers, since wages depend not upon the number of employers, but upon the amount of work to be done. It follows also that there must be lower prices in proportion to the increased abundance of the articles to be sold, for outside of life's most absolute necessities, the price of things to be sold depends not so much upon the number of sellers as upon the number of articles to be sold.

It is by no means well established that corporations tend to centralize wealth; that is, that they tend to build up great private fortunes. The contrary would in all probability be the result if we could have honest corporate management—if the stockholder with one share felt certain that he would have his fair *pro rata* of the earnings. The man with a hundred dollars to-day places them in the savings bank and gets three or four per cent interest; but when these small sums have been aggregated into one great sum in the savings bank, along comes the railway company and sells to the bank its bonds (for savings banks are now

allowed in many states to invest in railway bonds), borrows the money at four or five per cent, and with it earns a greater sum. We repeat, it is by no means certain that corporations do have the effect of centralizing wealth. The stock books of many of our great railway corporations show that the average holdings are becoming smaller. It is almost impossible to tell whether this is the result of the investment of the savings of persons of limited means, or whether it comes from a more general distribution by large capitalists of their holdings in stocks.

There is one fact, however, which is pregnant with significance. It is that rates of interest as well as dividends are decreasing, while wages are increasing and hours of labor are shortening. Furthermore, the prices of those products which are made by business enterprises in which concentration of wealth is possible, are decreasing. It is only in the case of agricultural products, where concentration is impossible, that we see a general increase. As the capital of the wealthy increases, it brings them a constantly decreasing income. Its increment is invested in enterprises for enlarged production of articles, the prices of which are constantly lessening, but which give more and more employment, and therefore tend to increase the wages of the toiler.

Industrial combination does not mean industrial slavery; it means industrial freedom. The employees in large factories invariably are less subject to the will and the wish of their employers than is the man who works in the store or the shop where he has but few co-workers. Another truth which is indisputable is that the wage-earner who is most free from the dictation of his employer, is the man who is employed by the person whose business is prosperous, whose orders for goods are numerous, whose factory and mill are running to their full capacity, whose profits

are large; while, on the other hand, the person who is producing at no profit, who has no orders ahead, who has need of no new employees, and who can hardly find work for those then in his employ, can afford to be, and frequently is, an absolute despot.

It has been well said: "The great need of society to-day is not individualism in the production of wealth, but individualism in citizenship." The great lesson of history is that if men would accomplish the greatest results, they must work together. Socialism and individualism are not altogether antagonistic; they are complementary. What the working people want to-day—what they need, and what they wish, and what they are clamoring for—is for more time for social and intellectual advancement, and less time for physical toil. They ask for eight hours for work and eight hours for rest and eight hours for recreation and education—and the request is a proper one. When it is granted the chimes of history may well ring out, for they will ring in a new era in civilization. What the laboring man wants is steady employment, higher wages, and a fair proportion of leisure. He is much more apt to get them when his employer has cut off every waste in his methods of production and distribution. The freedom and liberty of the workingman depend not on the fact that he works for wages, but upon the amount of his wages, and that depends upon the amount of work that is to be done. The workingman never can prosper unless his employer prospers. The more prosperous the business of the employer, sooner or later the more prosperous will be the employee.

It is said that trusts are corrupting our political life. That is largely due to the special privileges that we hold out before them. Abolish them; take away the temptation to corruption, and corruption will cease. It is said that the industrial combinations of the day are a political

menace because they produce inequality of wealth and that a democratic government cannot exist if there is not a reasonable equality of fortune among men; but we believe we have shown satisfactorily that the aggregation of productive wealth tends to lessen the inequalities rather than to increase them. The danger arising from wealth is not in the aggregation of wealth in industrial combinations, in productive enterprises, but in the withdrawal of wealth into channels that are unproductive. It lies in the extravagance of the rich, in the vast sums that are put into articles that cannot themselves be productive of new wealth.

In conclusion, we repeat, the true policy is to adopt that system of industry which will place the man not only before the dollar, but within reach of it. The wisest statesmanship will be to put the man above the dollar by enabling him to obtain it and to use it to rise superior to his present condition.

CHAPTER XV.

LEGISLATIVE POWERS OVER TRUSTS.

BEFORE we can with any advantage consider the question of what legislative remedies we can seek for the evils of trusts, it will be necessary to consider the scope which, under the Constitution, national laws upon the subject can have, and also the limitations upon state statutes. It will also be wise to give some consideration to the results of statutes which have already been enacted. The anti-trust laws, both those which have been enacted and those which have been proposed, involve grave constitutional questions. Inasmuch as these laws are comparatively new and inasmuch as few of them have been passed upon by the courts of last resort, many of these questions can not be said to be authoritatively answered; still there are precedents which foreshadow the final decisions of the courts whenever cases shall come before them in which constitutional provisions shall be applied to anti-trust laws; and there have been a few decisions by the Supreme Court of the United States touching these laws themselves.

The Federal legislation upon the subject of trusts consists of an act passed in 1890, which is known by the name of Senator John Sherman, who was active in securing its passage. We give that act complete in Appendix A. In two recent cases, one known as the Trans-Missouri case, and the other as the Joint Traffic case, the Sherman act was held to apply to railway pools, that is, to combina-

tions of railway companies for the purpose of maintaining rates,—even when the rates to be maintained were not unreasonable in amount. But the matter of practical interest now is its applicability to industrial combinations known as trusts, for the suppression of which it was designed. We quote from a recent article in *The North American Review* for September, 1899, entitled "Legal Aspects of Trusts," written by Mr. Joseph S. Auerbach, a well-known corporation lawyer of New York City. The following paragraphs taken from his article and embodying two or three extracts from the decision of the United States Supreme Court in the Knight case, often called the Sugar Trust case, and decided a few years ago, show the limit of the power of Congress to deal with industrial combinations, and also refer to the limit upon the powers of states to deal with interstate commerce. From them it will be seen that Congress has no constitutional power to stop industrial combinations that are engaged in manufacturing, even though they are monopolies. It can only prevent them from directly restraining interstate commerce:

"Congress has such power only as has been specially conferred upon it by the Constitution, and the authority for the (Sherman) Act is found in the provision of the Constitution, that Congress shall have power 'to regulate commerce with foreign nations and among the several states and the Indian tribes.'

"This provision of the Constitution, however, confers upon Congress *the sole authority to legislate upon questions affecting such commerce*, and all attempts on the part of the states to defeat this exclusive right vested in Congress, whether by imposing discriminating taxes, or taxes upon goods in original packages, or by a tax upon the agencies employed in carrying on that commerce, have been condemned by the Supreme Court of the United States.

"Any attempt also on the part of the states to bring under their control or regulation any article the *subject* of trade or commerce,—except where Congress has first conferred upon the state that right of control or regulation,—has been likewise condemned.

Even where such right of control or regulation has been authorized by Congress, it has been confined by the Supreme Court to those cases which come within the proper exercise of the police power of the state.

"The Act of Congress quoted above (the Sherman Act) has been repeatedly construed by the Supreme Court of the United States in cases which have excited general interest. It was sought to apply the Act to the case of a corporation seeking, as alleged by the Government, to acquire a monopoly of the manufacture of sugar, which might be, and which in all probabilty would be, the subject of trade or commerce; and the corporation conceded that it was attempting through the acts complained of to exercise a greater control of the business in which it was engaged. The Court declined to regard the Act as applicable to this state of facts.

"The Court said, Chief Justice Fuller writing the opinion:

"'*The fact that an article is manufactured for export to another state does not of itself make it an article of interstate commerce,* and the intent of the manufacturer does not determine the time when the article or product passes from the control of the state and belongs to Congress.'

"And the Court used these still more important words:

"'Contracts, combinations or conspiracies to control domestic enterprise in manufacture, agriculture, mining, production in all its forms, or to raise or lower prices or wages might unquestionably tend to restrain external as well as domestic trade, but the restraint would be an indirect result, however inevitable and whatever its extent, and such result would not necessarily determine the object of the contract, combination or conspiracy.

"'*Nevertheless, it does not follow that an attempt to monopolize or the actual monopoly of the manufacture, was an attempt, whether executory or consummated, to monopolize commerce, even though in order to dispose of the product the instrumentality of commerce was necessarily invoked.*'

"So that the Supreme Court, as stated above, has limited the objects of the (Sherman) Act to matters clearly and unmistakably relating to interstate commerce, and has declined to permit the states to interfere with any product or article the subject of interstate commerce, except where, as pointed out above, Congress had authorized the state to exercise over such article or product its police power of regulation and control similar to that exercised as to like articles produced within its own territory."

It would seem as if the Sherman law was a complete and full exercise of the right of Congress to legislate upon the subject of trusts, and as if nothing further could be done until the Constitution of the United States was amended so as to give Congress further power. The only additional legislation on the part of Congress, under the present constitutional provisions, would be additional penalties and new methods of procedure. This is what the House of Representatives, during the session now drawing to a close (June 5, 1900), has been trying to bring about. A bill was introduced by one of the Republican Congressmen and favorably reported by the Judiciary Committee of the House and early in June passed by the House, amending the Sherman law in certain particulars. Only one vote was recorded against the measure. But the changes which were made were, as has been said, principally matters of procedure and increased penalties. They covered no new causes. [See Appendix B.]

Let us now consider the scope of state laws designed to regulate or suppress trusts. In the first place, Congress has exclusive right to legislate concerning interstate commerce. None of the states have any right to interfere with interstate commerce or with the objects of interstate commerce, unless Congress specifically delegates them the power to do so. It is necessary to keep thoroughly in mind this limitation upon state authority because it practically prevents any effectual legislation on the part of states for the suppression and control of trusts. To give an example of this limitation, it may be said that at one time the legislature of the State of Pennsylvania passed an act prohibiting the manufacture and sale of oleomargarine within that state, and the Supreme Court of the United States held that that law was not in violation of the provisions of the United States Constitution prohibiting states

from passing any law that would deprive one of life, liberty, or property. But when it was attempted to apply the same act to shut out oleomargarine which was sent into Pennsylvania from another state, the Court said:

"The *Powell case*" (the first case decided) "did not and could not involve the rights of an importer under the commerce clause. The right of a state to enact laws in relation to the administration of its internal affairs is one thing, and the right of a state to prevent the introduction within its limits of an article of commerce is another and a totally different thing. Legislation which has its effect wholly within the state and upon products manufactured and sold therein, might be held valid as not in violation of any provision of the Federal Constitution when *at the same time legislation directed toward prohibiting the importation within the state of the same article manufactured outside of its limits might be regarded as illegal, because in violation of the rights of citizens of other states arising under the commerce clause of that instrument.*"

The importance of this is that, when applied to trusts, it practically means that although shut out from obtaining a domicile or establishing themselves in a state, they may, nevertheless, ship their goods into it if they can obtain a legal domicile in any other state. Corporations are creatures of the state in which they are incorporated, and the state which incorporates them may impose upon them at the time of their creation such conditions as it deems proper. But when states undertake to deal with corporations chartered by other states, although they may deny them the right to acquire a domicile within their territory or to settle within their limits to do business, yet it seems they have no more power to interfere with interstate commerce and to prohibit a trust established and located in another state from shipping goods into its territory, than they have to interfere with interstate commerce when conducted by private persons. Mr. Auerbach's statement of the law on this subject is so clear, and is made by so

eminent an authority, that we quote again from the article by him:

"It has been held in a series of cases by the Supreme Court that each state shall be the judge of the conditions under which foreign corporations shall be admitted to do business within its territory, and that discriminating provisions of a state in favor of its own corporations as against foreign corporations are not in conflict with the clause of the Constitution of the United States which declares that 'the citizens of each state shall be entitled to all the privileges and immunities of citizens in the several states.'

"*It has been held, however, that when the question involved is one of interstate trade or commerce, a foreign corporation stands upon the same footing as an individual.*

"Every state, therefore, has a liberty, and almost a license, in determining what class of corporations shall be admitted to its territory, and the conditions under which they are to be admitted, save only that it shall do nothing which in effect regulates trade or commerce carried on by a foreign corporation. It can determine that a foreign corporation shall not have a legal status there, but it has no right to restrict, embarrass, interfere with, or have any regulation over a foreign corporation selling its goods through solicitors or representatives, or otherwise carrying on interstate trade or commerce within its territory.

"Exclusion is not feasible; it is a mere academic right on the part of the states, for the exclusion cannot be absolute, since the foreign corporation can cross the border of the state, and, as a trading corporation, exercise the rights of an individual to the extent of disposing of its product by solicitors, or canvassers, and where the product or article dealt in requires skill in its installation, may actually instal and set up the article disposed of. . . .

"Corporations, therefore, domiciled in New Jersey and trading elsewhere have nothing to fear and no favors to ask of any hostile state. Such state may say that they shall not be domiciled there, that they shall not own real estate there except on its own terms. The state may exclude the corporations altogether from a domicile, but it may go no further. These corporations may come and go from one end of the land to the other to carry on interstate commerce, and no state barriers or regulations shall affect them. There are no state lines for the individual or corporation carrying on that commerce."

It is therefore seen that however wise and conservative the laws of New York State or of any other one state may be, however much they may exact publicity, however much they may prevent over-capitalization, however much they may provide against corporate mismanagement, and however much they may require that corporations shall submit to official inspection, yet there is nothing that will prevent corporations organized in New Jersey, Delaware, Arizona, Illinois, Florida, or any other state in the Union whose laws may be most lax, from shipping their goods into and from selling them in New York or in any state of the Union. Doubtless the State of New York could prevent these foreign corporations from acquiring a domicile, from establishing or maintaining factories within its borders, but could not prevent them from carrying on interstate commerce with its citizens. It could not tax their agents; it could not shut out their goods; it could not tax their goods while in transit, and even if it should deny to a foreign corporation the right to sue in the state courts to recover the price of the goods, the foreign corporation could pursue its remedies in the Federal courts.

There are also many restrictions upon the rights of state legislatures to pass laws relating to trusts and combinations, even when the provisions of the laws are expressly limited to existing corporations chartered by that particular state, or when limited to citizens of the state itself. These restrictions are imposed by the fourteenth amendment to the United States Constitution, which declares that no state shall deprive any person of life, liberty, or property without due process of law. The Supreme Court has declared that the right to liberty means more than freedom from incarceration, and the right to property means more than not having it destroyed or demolished.

It means the right to use and enjoy it; to make contracts with reference to it; to hold it or to sell it as one pleases, except in so far as the state may restrict such acts in the exercise of its police powers, that is, in the exercise of its power to restrain one from making such a use of his own property as works an injury to another, or violates the rights of another. It has been strongly argued that the right of contract implies not only the right to compete, but the right to refrain from competing, and the right also to agree with others to refrain from competing; and that it is only when competition is *unreasonably* restrained that it can be forbidden. It must be admitted that there are many decisions of the courts of the State of New York, both before and since the passage of its anti-trust act of 1897, which seem to support this contention; and the decisions of the Supreme Court of the United States seem to hold that the acts which are forbidden and punished as restraints upon interstate commerce, are only those acts, contracts, agreements, or combinations whose *direct and immediate* effect is to restrain interstate commerce. The same court has also used language in its decisions which would seem to lay down the doctrine that contracts of private individuals or of private corporations (not quasi-public corporations like railroads, gas companies, water companies, etc.), in order to be punishable as restraints upon trade must be *unreasonable* restraints. These *dicta* would seem to have committed the court to a doctrine which would require them to pronounce any state law that denied one the right to make a contract, which only *reasonably* restrained competition, as being unconstitutional and void. On the other hand, the decisions of the court have been such that it can hardly fail to declare all such restraints as are imposed by the great trusts which absorb all or nearly all the productive agencies in any one in-

dustry, as being unreasonable restraints and as creating monopolies.

It may not be amiss to make brief mention of the number and character of existing state anti-trust laws. Mr. Charles F. Beach, Sr., in his treatise on the *Law of Monopolies and Industrial Trusts* published in 1898, shows that at that time thirty-one of the states had laws prohibiting trusts, monopolies, pools, and industrial combinations. We give in Appendix C certain sections of the New York law. Anti-trust laws of the various states differ from each other in many particulars; and yet it is generally true that all or nearly all of them attempt to prohibit in express terms all contracts or arrangements that may effect *any restraint* of trade or competition, whether express or implied, reasonable or unreasonable. In 1894, when Ernst Von Halle wrote his book on *Trusts*, to which reference has been made, there were anti-trust laws in about twenty-two states and one territory, besides the one enacted by the Federal government. In nearly every one of the states it was declared to be a criminal conspiracy for two or more persons to agree to regulate or fix the price of any article, or to fix or limit the quantity of any article to be manufactured or produced or sold; or to make a contract restraining competition. All such combinations are declared void; and those who formed them were punishable with heavy fines and imprisonment. Not infrequently all such combinations were denied the right to sue in the state courts to recover the price of goods sold by them. Since 1894 the statutes have been made more stringent. The Texas law, enacted one or two years ago, is perhaps the most drastic and most sweeping; but the law of nearly every state forbids *all* attempts by agreement to stop competition, to regulate production, to fix prices, and to create monopolies.

The limitations of the power of the National Congress in dealing with trusts, and the restrictions upon the power of the states to interfere with interstate commerce,—the fact that the National government can not forbid combinations of manufacturers, even if monopolies, and can regulate only interstate commerce; and on the other hand, the fact that the states, although they can forbid unreasonable restraints of competition, and can impose conditions upon the corporations chartered by themselves, and can also impose conditions upon foreign corporations that seek to locate within their limits, yet cannot prevent foreign corporations from sending their goods within their borders and selling them there,—these things show clearly that, if we are to have efficient legislation, whether that legislation be regulative or destructive of trusts, we must have an amendment to the United States Constitution. It would be absolutely paralyzing to business as well as destructive of political harmony between the states, to give to the states any authority over interstate commerce. The prosperity of the country has been due to the absolute freedom of trade between all sections. The great weakness of the original confederation which was formed by the colonies after the Revolution, was in the diversity and complete lack of harmony between the laws of the several states relating to commerce, in the arbitrary and unjust restrictions and impositions placed by the various colonies upon trade with each other. The modern facilities for transportation and communication have welded the states more and more firmly together. Our business affairs are now as wide as our continent. The great difficulty so far in dealing with trusts has been that business transactions have reached far beyond the jurisdiction of any court that had control of them. It has become a necessity for the Federal Congress to have greater power over business given to it. That

is the conviction of economists, statesmen, business men, and politicians. Prof. Henry C. Adams and Ernst Von Halle advocate it: even Mr. Bryan has admitted that it *may* become necessary to do this. Scores and hundreds of other students of the trust problem, Democrats as well as Republicans, have admitted the necessity of a constitutional amendment giving Congress power over corporations and other business enterprises which are so great that they must of necessity engage in interstate commerce. The Democratic platform of 1896 demanded a stricter Federal supervision. Yet when the Republican party in the House of Representatives, in May and June, 1900, proposed an amendment which would have enabled Congress effectively to deal with trusts, the Democrats, with but five exceptions, voted against it; and, since a two-thirds vote was necessary, killed the proposition. If people, who are trying to sit down hard on trusts, find, in coming years, that they are sitting down between two stools,—one, inadequate Federal legislation, and the other, insufficient state legislation,—National laws that cannot touch trusts and state laws that cannot reach them,—let them remember that it is due to the action of the representatives of that party which is so strongly wedded to the doctrine of state rights, that it will sacrifice the only means of obtaining practical remedies for oppressive evils, in order to be consistent in its adherence to a theory of government which the course of events, the progress of the world, and all the achievements of invention and discovery, by unifying the states into one indissoluble union, are continually and inexorably demanding shall be modified so as to accord with existing conditions.

There are some significant facts to be observed in connection with the anti-trust legislation of the United States. Since that legislation,—since 1887, for example,—there has

been a vast increase in the number of trusts. The old form of organization, the trust proper, has been given up; but innumerable gigantic corporations have sprung up. The power is more centralized than ever, competition is more effectually restrained; and yet the form of organization is such that it is somewhat inaccurate to speak of it as a combination, and very difficult to cause its abolition as a combination. It is difficult to frame laws forbidding it to purchase property, which will not forbid purchases of property by others. Along with the corporations have come many corporation evils, such as over-capitalization, corporation mismanagement, stock gambling, and kindred evils. It is by no means certain that our "latter end is not worse than our first." The only gain,—perhaps a gain that will more than offset all the evils,—has been that, in compelling combinations to incorporate, we have compelled them to assume a form of organization which, because it is artificial and because it is the creation of the state, is peculiarly subject to limitation and regulation by the state. Our laws have not succeeded very well in killing trusts. They have only brought about a form of organization which renders trusts easier to control than when they consisted of private individuals bound together by private agreements.

CHAPTER XVI.

THE REMEDY FOR THE EVILS.

We come now to that momentous question, which remains unanswered after over a decade of consideration. The question of the hour, the question, indeed, of the era, is: "What is the remedy for the evils of trusts? Shall we abolish trusts entirely? Shall we kill the trusts?" The popular answer has always been, "Yes." The National Congress by passing the Sherman act has said, "Destroy the trusts." The legislatures of thirty-one states by enactments that are drastic and sweeping, declare that trusts must be stamped out. Every member of the House of Representatives, with one exception only, by voting in favor of the amendments to the Sherman act, making its penalties more severe and prescribing a course of procedure more certain to give effect to the law, has said that trusts must go. The platforms of all the political parties,—Republican, Democratic, National-Democratic, Social-Democratic, Populistic, and Prohibitionist,—differ only in the vigor of their expressions of denunciation of trusts. Like Cato's letters which were never closed without the declaration, "Carthage must be destroyed," no political document, whether it be a message of an executive, a speech of a legislative candidate, or the platform of a party organization, is complete without its threat of extinction of trusts. The subject, indeed, is worthy of profound consideration.

Before we attempt to suggest remedies, or to sum up

the remedies already suggested, let us make a *résumé* of our study of trusts, and at the risk of being very peculiar and exceptional, let us consider what are the evils of trusts. First, then, we have seen that we are living in a day of great things. Business opportunities are gigantic, industrial undertakings are enormous, commercial projects are vast, *and great business organizations have become a necessity;* since the dawn of industry, there has been a constant tendency for them to increase in size. Next, the present system of business is characterized by excessive competition: *there seems to be a tendency to carry the struggle of competition to such an extent that it becomes injurious to the consumers as well as ruinous to the competitors themselves.* Modern competition is destructive and self-destructive; it has a tendency to end in monopoly itself. Modern competition is often unreasonable, and, if it were not for the possibility of unreasonable restraints, agreements for its discontinuance would commend themselves to the public as being highly proper. *Consolidation and combination render possible cheaper production and infinitely cheaper distribution;* the competitive system is so expensive in its operation that the price we pay for many articles is far in excess of the cost of actual production plus what would be a fair profit, if the best and most perfect methods of organization were adopted. There are gigantic evils resulting from the lack of regulation of industry; consolidation makes possible a better control, and will enable those adopting this form of organization to sell goods at lower prices.

It is only by avoiding all the wastes of excessive competition, by availing ourselves of all the savings of combination and consolidation, by seizing all the economic advantages of great industrial organizations, in addition to adopting the latest and most improved machines and proc-

esses, that we can lessen the cost of production and lower the prices of our goods, without cutting down wages and without depressing the prices paid for raw materials. We *must* lower our prices in some way to meet the prices made by the intense competition of the day, or lose our trade and call down upon ourselves industrial ruin. Perfection of business organization, supplementing perfection of mechanical equipment, is the only way in which we can win in the international struggle for industrial supremacy,—the only way in which we can obtain foreign markets for our products which, in nearly every industry, are in excess of home consumption,—the only way in which we can keep our wage-earners constantly employed at remunerative wages, or increase or even continue the present demand for raw materials,—the only way in which we can constantly cheapen the cost of our goods and advantageously lower prices. To prevent or restrain all combinations and consolidations and concentrations of capital and skill, would be the greatest business folly in the world's history,—an act sure to result in bankruptcy, misery, and wretchedness.

Worse than competition, however, is monopoly,—the paralysis of business, the obstacle to all progress, the bane of liberty. Monopoly, whether it be the result of exclusive privileges and legal rights granted by the sovereign or simply that degree of control over an industry which enables one person or group of persons, at will, to fix prices, to determine production, to establish wages or to depress the prices of raw materials in any field of industry, is evil and only evil. Whatever may be the benefits of trusts or industrial combinations, if, for any length of time, those who form them are able to keep prices unduly high, injury to all classes and conditions will result, and only injury.

When there are no legal restrictions and no special priv-

ileges, trusts are not legal monopolies. Neither can they permanently be practical monopolies. Competition is sure to spring up, if undue prices are charged. The constant increase in the wealth of the world causes capital always to look out continuously for opportunities for investment; just as water seeks its lowest level, so capital is sure to invest in the business that gives promise of the greatest profit. The fear of competition,—potential competition,—is a powerful restraint upon the temptation to charge high prices. *But trusts for temporary periods have the power of being really and actually oppressive, exacting, and merciless monopolies.* Such they may be and very frequently are, pending the establishment of new competition. Furthermore, the trusts, by using competition as a weapon and by practicing cut-throat competition and by selling at times or in special localities at prices far below cost, are able to crush out new competition; and the knowledge of the custom of trusts to use these unscrupulous means is always a deterrent to the establishment of competition. It crushes out active competition, and greatly weakens the force of potential competition. Competition is, moreover, generally an uneconomic remedy for trust evils. In reality, the establishment of a new enterprise for the purpose of lowering prices is a waste of national wealth, whenever the existing productive agencies have a capacity equal to or in excess of the existing demand; and in nearly all our industries, there is to-day such a condition. While this condition deters competition, even although the various enterprises of the industry are individually controlled and managed, and while, perhaps, competition is no more deterred when all these productive industries (with a capacity in excess of the demand) are aggregated into one organization; yet whether the restraint is greater or less, in case of aggregation or lack of aggregation, competition is always an

uneconomic remedy, when the capacity of existing agencies exceeds the demand; and therefore potential competition is not a wholly wise remedy for the evils of trusts. It is true that the enterprise and hopefulness of business men are such that even under the conditions of industry just mentioned, competition in time will spring up if prices are high and if there is the possibility of acquiring profit. But this generally being wasteful it is the part of wisdom not to rely on it wholly as a remedy for high prices, but to prevent combinations, if possible from acquiring so great a control of any industry as to be practical monopolies. An enlightened self-interest would keep trust owners from charging extortionate prices and thereby inviting their own ultimate destruction by creating competition. But greed and selfishness are apt to blind one to true self-interest; and trust owners are constantly tempted to raise prices unduly. Every economic advantage of the trust to the producer as well as to the consumer is lost if (and so long as) such a policy is pursued. Cheap production is of no advantage, but may be of positive harm, if prices are not lowered. Even though the evils of trusts are only temporary, as is true, they are grievous. The underlying evil is the occasional imposition of an extortionate price; the cause of the evil is the possession by the trust of all or nearly all the productive agencies in an industry in which for a time competition is rendered inactive because new establishments in that industry are not needed for productive purposes. In the train of an extortionate price there follow these evils: lessened consumption, diminished production, lack of employment, lower wages, depressed prices for raw materials, stagnation, and general bankruptcy.

Some of the trusts are undoubtedly formed for the purpose of securing the economic advantages of combination, but a very large number of them are brought into being

and are sustained by means of special privileges, such as public franchises, railroad discrimination, unequal taxation, and other forms of partiality, which enable the favored parties to crush out the competitors who are not thus favored. *Careful students of the trust problem believe that a vast majority of the trusts of to-day owe their existence as well as strength, not to their economic superiority, but to their possession of special privileges.* These privileges, even if not the cause of the trusts, are certainly the cause of a very large portion of trust evils, for in proportion as special privileges are accorded, the favored organizations are relieved from the necessity of giving to the community better service and lower prices. Furthermore, it is beyond question that while the desire of adopting the most economical methods of organization is the motive that actuates a number of the persons entering into trusts, yet nearly all the trusts which have been formed within the last three years have been the inflations of the "promoter" rather than the combinations of the real producers. Their purpose has largely been to sell to the investing public the over-capitalized stock of these corporations; and the result of the over-capitalization has been a tendency to impose high prices for the purpose of accumulating, even though temporarily, dividends which would give an apparent value to the stock in excess of its real value; another result has been to stimulate stock gambling, corporate mismanagement, and improper manipulation of the securities of the company not only by speculators, but also by the officers of the companies themselves. This has resulted in those in charge of great trusts not infrequently giving their time and energy to manipulation rather than to management. It has largely impaired public confidence. It has filled the financial condition of the country with much uncertainty. It has so destroyed confidence that panics have resulted.

It is thus seen that we have certain evils apparently inherent in trusts, but that they are temporary. We also have numerous incidental evils. The great remedy may be said to be competition. This is true notwithstanding trusts are formed in order to limit competition; and notwithstanding there are limitations to competition as a remedy for trust evils. But what are the specific remedies?

Abolish all special privileges; prohibit and absolutely prevent railroad discrimination; lower the tariff,—not whenever we can obtain our goods from abroad at a lower rate, but whenever the prices exacted by any trust or any corporation or any individual are in excess of a fair profit after paying American wages. The establishment of an export trade in any article should be treated as presumptive evidence of the lack of need of a tariff, and the tariff upon such article should be continued only when it has been clearly shown that sales abroad are the result of exceptional circumstances. If the patent laws are being perverted from their true purpose, let them be modified. Compel corporations to bear their fair proportion of taxation; let the public retain and, in so far as is lawful, retake all public utilities and franchises. Require corporations to pay fair taxation upon the franchises possessed by them, as has been done in the State of New York under the championship of Governor Roosevelt. In fine, withdraw every special privilege and leave the way open for a free fight and a fair field. "But how much can be accomplished by this method?" We answer: "Do this, and trusts will wither away by the score, if not by the hundred. Do this, and trust evils will nearly all be done away with." It is somewhat peculiar that those people, who have been most actively engaged in that form of anti-trust legislation which seeks to render impossible all consolidation and combination,—who have been active in framing laws

which, if literally construed, would prevent even such a combination or restraint upon trade as the formation of a partnership, or the purchase by one man of a factory or a store or a farm or any other producing or distributing agency which formerly belonged to another,—have, in their denunciations of trusts, almost uniformly declared that the cause, not only of the existence but of the strength of trusts, was special privileges, and yet have not concentrated their energies in efforts to abolish these special privileges, but have dissipated their energies in their attempts to stop all combination, consolidation, and concentration,—conditions towards which there is a tendency which is universal and apparently irresistible, and which has also been the trend of all industrial and social progress. Thus Hon. Jerry Simpson, the Populist member of Congress from Kansas, who is an advocate and supporter of the Kansas law against trusts, in his address at the Anti-Trust Conference in Chicago, declared:

"I do not believe, as some do, that the combinations we call trusts are the results of orderly evolution in business methods. I think I can easily demonstrate that they have their origin in, and grow and fatten upon, special privileges conferred by legislative bodies; and that without these special privileges it would be impossible for them to exist. If this be true, it would seem that the first and most necessary step would be to repeal the laws on which they rest, rather than to enact new laws."

That plank is broad enough for both Jerry Simpson and ourselves to stand upon. His remark is one of the sensible declarations made in the discussion of trusts.

In one of the recent numbers of *The North American Review* there appeared an analysis of the Texas anti-trust law by Governor Sayers of that state. He was most instrumental in the passage of this law. He even called a conference of the governors of all the states of the Union for the purpose of considering anti-trust legislation, and

doubtless considered this Texas bill as the acme of perfection. The most interesting thing about the article in which the analysis appeared is, that *after* giving the analysis of the law, and *after* pointing out a few of the evils of trusts, Governor Sayers discussed the causes of trusts. We quote from his article:

"It has been asserted by some who claim themselves qualified to speak upon the subject, that trusts, as operated in the United States, are not harmful, but that they are only the outgrowth of an evolution in industrial life that is natural and necessary. On the other hand, it is insisted, and I think rightfully, that they are, in a great measure, if not entirely, due to vicious legislation, to the policy of the Federal government in the matter of currency and taxation, and to that of the states in the creation of corporations."

We think, it must be admitted, that the Texas anti-trust law is a *non-sequitur* to the argument advanced by Governor Sayers. The weakness of his course in regard to trusts is, that he has not attempted to concentrate his energies to removing that which he declares to be the cause. This is said in no spirit of criticism and with a perfect understanding that Governor Sayers' official influence at that time could be asserted only through state legislation. The point we would make is this: that the way to abolish trusts is to remove their causes. If special privileges are the causes of trusts, abrogate those privileges. While we may not all agree as to the special privileges that do, in fact, foster trusts, yet we can all act unitedly in a campaign directed against those things which are concededly privileges that have this effect, for the trusts that can succeed only by the help of special privileges are economically inferior. The trusts that have the special privileges and yet do not need them, are thieves and robbers.

After we have stripped all competitors of special privileges; after we have created a fair field for them, we must

take steps to see that there is a fair fight. Unfair competition, cut-throat competition, that is, the practice of selling goods below cost in the locality in which competition springs up while charging a higher price in some other locality, must be declared by law to be a conspiracy and should be punished with severe penalties. The provision of the Texas law concerning this kind of competition is one worthy of adoption by all states. In like manner these great corporations, whose powers are given to them by the state and which are able by reason of these charter powers to obtain such a great control over industries, must be compelled to sell to all at the same rates. When so many of them combine together that the establishment of new competitive enterprises becomes economically wasteful, then we have the right to treat them as we do common carriers and make them serve all alike.

Publicity must be another great co-ordinate remedy. We need it to correct, not only incidental, but inherent evils of trusts; to encourage competition whenever competition is practicable, to expose to us the exact nature of the evils of trusts, to bring out under the glare of public disapproval those practices which flourish only in darkness and secrecy. We must have full, open, and accurate reports from trusts, upon forms prepared by the government, sworn to by the officers of these corporations. We must also have, in the case of gigantic corporations which possess gigantic powers, inspection by public officials just as our banks and insurance companies are subjected to such inspection; and further, we must have full tabulated statistical information. Competition will certainly spring up under such circumstances whether or not the competition is, in fact, needed. High prices will sooner or later cause the establishment of new enterprises; while the fear of new enterprises always has a tendency to keep prices down. Wages

can never be reduced to the starvation point, if the condition of both employer and employee is known. Corruption will flee when secrecy is dispelled. With equality of opportunity, with a fair field and a free fight, there are comparatively few business men who to-day would not accept the challenge and enter into competition even with great corporations. When they did not it would have to be considered as an admission of the economic superiority of the trust. Then let us also enact laws forbidding over-capitalization, permitting the issue of stock only for cash, or for the actual value of property,—earning capacity and good-will to be taken into consideration, but full knowledge of that upon which the value is based, to be given to the investing public and, if need be, the value of these properties to be passed upon by a commission appointed for the purpose rather than by the directors and officers of the company entrusted with its management and under constant temptation to manipulate its affairs. Publicity will prevent most of these evils; it will stop most of the stock manipulation and nearly all of the swindling of the investing public. Let us also pass laws more stringently regulating corporate management. Let us hold the directors and officers to a greater responsibility. It is necessary that we limit the liability of stockholders because of the impossibility of their managing the affairs of the company, but this applies, only in a slight degree, to the boards of directors. They have, to a great degree, the control of these companies. True, many of the affairs must be managed by officers chosen by the directors, and acting for them, but it is absurd to limit the liability of these officers, and it is equally absurd to limit the liability of the directors as much as one does the liability of the stockholders. The directors of all corporations should be held to at least the same measure of liability that trustees of savings banks and national

banks assume. It should be made criminal to declare dividends if unearned; and there are numerous other evil practices in the management of corporations, especially of those great corporations known as trusts, which could easily be prevented by prohibitory statutes strictly enforced and by holding the directors and officers personally responsible for the corporations' criminal acts in which they participate.

So much for the remedies for the incidental abuses of trusts: Are there other evils? Are the remedies which have been suggested sufficient? We do not say that they are, but we express a firm conviction that if these remedies could be honestly tried, all that would remain of trusts or of trust evils would be relatively insignificant. Abolish special privileges, prevent unfair competition,—cut-throat competition,—compel corporations to sell to all upon equal terms, give us full publicity, prevent the evils of overcapitalization, make corporate management honest,—and competition, we believe, will do the rest.

But there are other things which we can do, which theoretically are perfectly proper, which, at times, may be supplementary remedies and, indeed, may be our best remedies if we cannot persuade ourselves to adopt those already mentioned. We can declare the creation of a monopoly to be a crime. We mean now, not a legal monopoly but a practical monopoly; that is, the acquirement of such a control over an industry that in a certain locality and for a length of time, short though it may be, a person or combination of persons has power to fix the price of an article of common use. It will be very difficult—in a statute extremely difficult—to define a monopoly of this kind; and yet it does not follow that it cannot be done. You may search all the law books that were ever written and you will find no satisfactory definition of "fraud." The

courts, though for centuries they have had to deal with fraud, have never yet undertaken to define it with any accuracy, for the reason that, if once defined, some one would perpetrate a fraud that would fall outside of the definition. But the courts thousands of times in every year in every state declare contracts void because of fraud; and so, although it may be impossible to frame any satisfactory definition of monopoly, that is, of what we may term "practical monopoly" as distinguished from legal monopoly, or exclusive right given by the sovereign, yet our courts have not shown themselves incompetent to discern it or unable to punish it. "Ye shall know them by their fruits" is as applicable to monopoly as it was to the men of hypocritical pretensions of whom the words were first spoken. You can ascertain whether a combination is a monopoly by observing what it does and how it does it. When a great aggregation or combination acquires such a control over industry as has the American Ice Company, for example; when the people for weeks look in vain for any other source from which they may obtain their supply of this necessity of life; when they see the few men who are the officers of this trust raising the price from thirty cents to sixty cents a hundred (even though it is for only a month); when they find this company in possession of docking privileges which are so exceptionally convenient and advantageous that they are almost exclusive; when they see it mercilessly refusing to sell ice in small quantities to the poor (refusing to sell five-cent pieces until compelled to do so by the force of a righteous public indignation), although having practically the sole supply of ice; when they recall the fact that this company sold its ice a year ago in most localities for thirty cents a hundred, yet that in another locality where competition existed, it reduced the price to ten cents a hundred so as to crush out its com-

petitor; when they observe it leaguing itself with certain officers who have charge of the docks where ice must be unloaded, with other officers whose duty it is to make contracts for the purchase of ice for the great municipality in which they have secured all the available supply, with politicians who control, with more than a czar's despotism, the political machinery of New York City, with judges, by whom questions as to the legality of the trust or as to the criminality of the acts of its officers would naturally have been brought,—when all these facts are brought together, no man in the possession of his senses, no man whose intellect is not clouded by idiocy, no man whose judgment is not obscured by his prejudices; no man who can read human motives from human acts or reason from cause to effect, can doubt for one moment that the purpose of this trust was to secure a monopoly; that for a time it was a grinding, merciless, and oppressive monopoly, and that the economies of combination and consolidation, either were not the motives for the formation of the company, or else that they were quickly and shamelessly cast aside. A state which did not, by its laws, forbid and prohibit and make penal such an aggregation of capital manifesting such purposes and directed and controlled by men displaying such motives and conducted in a way so hostile to the people and so injurious to the public interest,—a state which did not use every means, legislative, executive, and judicial, to crush out such a trust or combination, could not be considered as a government that guaranteed and insured to its citizens the blessings of life, liberty, or property. Attorney-General Davies of New York only acted in the discharge of his official obligations when he instituted proceedings to dissolve the American Ice Company, but although he did only his sworn duty, he is entitled to praise and gratitude and to the loyal sup-

port not only of the people of New York, whose servant he is, but of all who hate monopoly and oppression and exaction and extortion. We may, then, properly prohibit by law,—we should, in fact, prohibit by law any combination which acts as a *general restraint* upon competition, and which is formed for the purpose of raising prices, or which actually does raise prices beyond the fair profit mark. We can best tell whether there is such a restraint by observing results. It would be an economic folly to forbid all combinations; neither should we be alarmed by great aggregations of industry. We have seen their wonderful economic advantages; we have noticed how such consolidations and combinations may, if rightfully used, bring not only riches to their promoters, but wealth to the nations; how they may enable us to obtain industrial supremacy; how they may give more constant employment to our laborers; how they may stimulate the demand for our raw materials; how they may lessen the price of manufactured goods; how they may bring us national and industrial prosperity and happiness. It is most difficult to say what combinations are proper and what ones improper, or to lay down any general rules by which one can determine whether a restraint upon competition is a good or an evil, whether it is reasonable or unreasonable. Almost every case will have to be judged from the circumstances surrounding it and the courts will have to determine from all the facts of the case whether it is reasonable or unreasonable. They have done so in cases that have occurred. They have adjudged many combinations to be void because against public policy. It is very doubtful if we can obtain more satisfactory results by legislation. It may be regretted that we cannot more definitely determine and more explicitly declare what combinations are improper, and what restraints upon competition will be tolerated and

what ones prohibited. It is doubtless this feeling that has caused the enactment of our so-called anti-trust laws. Even the drastic ones adopted in many of our Southern and Western states ought not to be condemned as being inspired wholly by envy or jealousy. They are probably so sweeping in their provisions, simply because it is desirable, especially in penal statutes, that there be no uncertainty as to what is forbidden. In order that *unreasonable* restraints upon competition may be punished and because of the doubt as to what is reasonable and what unreasonable, the legislators of many of our states, fearing the evils of monopoly and of a general restraint upon competition, have not infrequently forbidden *all* restraints of competition. The motive that underlies the statutes has probably been good, but in the means adopted these legislators have almost always overreached themselves. The difficulty of proving purpose and motive has led them not infrequently to forbid even combinations and agreements that *may* or do, *indirectly* as well as directly, *incidentally* as well as intentionally, restrain competition. But when statutes so sweeping are enacted, they forbid the contracts which come up in our daily business negotiations and which are innocent in their character. The result is that the courts are compelled to construe these laws either as unconstitutional because of being violations of our right to the use of our property, or else they are bound to construe them as referring only to unreasonable restraints. Mr. David Willcox, a New York lawyer, counsel for various trusts, in an article in *The Forum* for September, 1897, gave many illustrations of the vast number of every-day transactions which were prohibited by statutes of this character. We quote from him:

"That these provisions are not directed especially against combinations, is shown by the fact that the most ordinary and customary contracts or arrangements *may* incidentally restrain or pre-

vent competition, although that may be only remotely, if at all, their object. As instances, may be suggested: All organizations of mechanics engaged in the same line of business for the purpose of limiting the number of persons engaged in the business, or of maintaining high rates of wages; a covenant in a deed restricting the use of real estate; the formation of a corporation to carry on any business upon a large scale; a contract of partnership between two persons previously engaged in the same line of business; the appointment, by two producers, of the same person to sell their goods on commission; the purchase, by one wholesale merchant, of the product of two producers; the lease or purchase, by a farmer, manufacturer or merchant of an additional farm, manufactory or shop; the withdrawal from business of any farmer, merchant or manufacturer; the cessation of production of any agricultural or manufactured product, or the suspension of mining, because of lack of demand; a sale of the good-will of a business, with an agreement not to destroy its value by engaging in similar business. In fact, any one who suspends or withdraws from business, by that very act will, in some degree, restrain or prevent competition. Equally, any one who enlarges his business will restrain or prevent competition by crowding out others. Examples might be multiplied indefinitely."

The state can, then,—it must, then, if it discharges its duties towards its citizens,—prohibit the actual monopoly. It must forbid, and by penalties endeavor to prevent, all *unreasonable* restraints upon competition. It must declare criminal any combination for the purpose of raising prices, or which does in fact improperly raise prices. It is doubtful if it can constitutionally do more, since the Constitution of the United States in the fourteenth amendment prohibits the states from depriving any person of life, liberty, or property without due process of law, and the right to property has been held by the courts to be the right to buy and sell, and to contract with reference to one's property, in any way which does not injure another. It would be folly for the state, even if constitutional, to endeavor to restrain all combinations, or to prohibit every restraint

upon competition; for we all know by actual experience and daily observation that competition is often excessive. We know that time and time again it has been impossible to stop the competition by mere quitting. It is only when all of the competitors would agree to stop that any of them could be induced to desist. To attempt to stop all combination would be to ignore all the experience of the past. The attempt would in all probability be futile. For years many of the states have had such laws, but their enforcement has been impossible. Trusts are more numerous to-day than ever before. But if we *could* stop all combination, the success of the attempt would be the death-blow to industry. For the United States to forbid all combinations, to forbid even great combinations, would be to throw aside the magnificent opportunity we have to-day of obtaining the markets of the world and of winning industrial supremacy among the nations.

Such are the remedies we would propose for trust evils. But it is not amiss to discuss here certain remedies suggested by others, especially the proposition to restrain combinations, by limitations upon corporate powers and corporate capitalization.

The only visible effect of our anti-trust laws up to this time has been to bring about a change in the form of combinations. We no longer have the trust proper; the "agreement" combine still exists, but the corporation is the favorite form of combination, because it is much easier for the corporation to pose not as a combination, but as a new legal entity. There are some who, observing the great evils that come from the over-capitalized trust, think that our anti-trust laws have made matters worse than they were before their passage; that they have not enabled us to escape the old evils, but have piled upon us a host of new ones. We are inclined to believe that on the whole

the state is in a much more advantageous position by reason of having trusts in corporate form. Corporations are artificial creatures of the state, owing their life to it, and peculiarly subject to limitations by it. We can, if we marshal our resources and gather together our forces, deal effectively and successfully with the corporations, even with the great corporations, and with all the problems arising from them. Anti-trust legislation has not been in vain if it has made trusts become corporations, for we can handle the corporations, if we choose. To enact anti-trust laws in order to compel combines to become corporations, and to be able, in this form, to remedy the evils of trusts is, it must be admitted, much like the practice of a certain doctor who could cure no disease but fits and who, therefore, whenever he was called in to visit a patient, proceeded to throw him into a fit, and then to cure him. If, after all the remedies that have been mentioned have been tried, we find that the trust is still a power for evil, then we can limit the size of corporations; we can prevent them from consolidating with each other; we can forbid their selling their stocks one to the other, or selling their plant, or anything but their product, without an order of the court made for sufficient cause. We can demand the fullest publicity, and can impose upon these creatures of the state such restrictions and limitations as their Creator may deem wise.

It has already been urged by economists as well as by statesmen that we should limit not only the size of our great corporations, but the purposes for which they may be formed. Such is the suggestion of Prof. Henry C. Adams, of Michigan University, while throughout certain sections of our country there is a popular feeling of approval.

Much of the opposition to modern corporations is but a new instance of the recurring opposition to every industrial

advance which manifests itself in the formation of larger business organizations. It is no new thing to ask for the prohibition of the increase in the size of industrial organizations. Such requests have been frequent throughout industrial history. No forward step has ever been taken without the timid and hesitating and doubtful crying out in alarm. More than one hundred and fifty years ago, when strictly individual ownership and management of property were giving way to the partnership form, a great cry went up. People considered it a restraint on trade and in alarm asked what was to become of manly independence. When the small business corporations began to displace the cumbersome partnerships, timorous people fairly felt the clutch of monopoly, so great was their alarm and fear. There is no question that the transition from the partnership to the corporate form excited as much alarm and as much opposition as the phenomenon of trusts does to-day. Adam Smith tried to quiet the popular unrest by attempting to prove that the corporate organization of industry would never be successful or popular, and could never do much harm because it was adapted only to a few simple routine branches of business, and that it never could obtain loyal and efficient service from its employees because in his opinion "people would not work for corporations as they would for themselves."

In many sections of the country, to-day, hatred and animosity towards corporations are fostered and engendered. This is remarkably true in those sections which, from the nature of their resources, are necessarily largely agricultural, and which, therefore, do not permit of combinations of capital to develop them. Forgetful of all the wonderful progress of the country due to corporations, unmindful that it is the industrial prosperity of the East, built up by corporate wealth, that gives to the West and the South the

nearest and steadiest and richest market for their agricultural products, and which, through its mills and factories, creates the demand for their raw materials, and equally forgetful of the fact that the development of the West and South themselves is due to the improved means of transportation and communication that are possible only when capital is enormously concentrated, and that that development has also been furthered by corporate capital engaged in manufacturing, and resulting in furnishing to the West and South cheaper tools, cheaper agricultural implements, cheaper clothing and cheaper commodities generally—forgetting all these things, in these sections there exists widespread fear of corporations, distrust of their motives and methods, and animosity towards their organizers and directors.

Corporations of enormous size are an absolute necessity to-day to do the work of the world. One undertakes the answer of a perplexing question when he endeavors to say how much capital a corporation should be allowed to have. Even within the limits of one trade or industry it is almost impossible to determine the question satisfactorily. It would be a dangerous business policy to fix an arbitrary limit to capitalization—to say, for instance, that no corporation could be incorporated with a capital exceeding $1,000,000 or $10,000,000. In one industry either sum might be insufficient to permit economical production, while in another it might enable the corporation to obtain a monopoly. Not, at least, until we have learned that there are evils in the gigantic corporations which cannot be otherwise averted can we afford to imitate Procrustes, the tyrant, who placed all his victims on one bed, stretching those who were short till they fitted it, and cutting off the legs of those who were too long. Furthermore, in any one particular industry, it would be most difficult, as well as dan-

gerous, to say what limit should be fixed to capitalization; although, if monopoly can be prevented in no other way, the limitation of capitalization is a practical method of procedure. One set of incorporators may possess such connections, have such skill, and meet with such success that it can profitably employ many times the capital that another set can use. The formation of corporations should be regulated by general laws. There are many objections of the gravest character to any attempt to make a special determination as to the amount of capitalization that any corporation or class of corporations shall have. It would be dangerous to attempt to pass upon each separate case. Favoritism, bribery, and every form of corruption are incidental to special legislation. If there is special legislation, or even special adjudication, as to the necessity or wisdom of granting a charter, or as to the amount of capital, there will be abuses and scandals of every sort. The right to incorporate will, then, surely become a special privilege. It will be obtained by the great and the corrupt, and denied to the weak; and the ability to incorporate will then become a monopolistic right.

Until experience has demonstrated that corporate abuses are beyond practical control, it would seem to be equally unwise to say that capital may clothe itself in corporate form and seek corporate management only when used in certain particular industries or kinds of enterprises. Prof. Adams has suggested that corporations should be created only for purposes of transportation or for the management of enterprises that are in their nature public or quasi-public; that the right to engage in ordinary enterprises and industries which can be carried on by individuals, either singly or associated in other than corporate relations, should be denied to corporations. While this cannot be discussed here with the fullness that so momentous a sug-

gestion by so eminent an authority deserves, it need only be said that such a course would be contrary to a tendency so universal as to be apparently natural and irresistible, and it would appear to be a retrogression in the industrial march.

Hon. Dudley G. Wooten of Texas, the first vice-chairman of the Chicago Trust Conference, in a most eloquent speech upon that occasion, in which he denounced industrial corporations, big and little, and urged that charters should not be granted to them to engage in business enterprises in which individual effort could work profitably, said:

"It ought to be impossible for corporations to be chartered for any other than a *quasi-public* purpose with a capital authorized beyond a reasonable amount commensurate with the equality between natural and artificial citizenship and industry."

In an earlier part of his speech he said of the people of Texas:

"We are mainly producers of raw materials and consumers of manufactured products,"

and then he pointed out how Texas felt particularly injured by trusts. Is not the experience of Texas itself a proof of the economic injury of the policy so eloquently urged by Mr. Wooten? No community can become rich without labor. The greater the amount of work it puts forth, the more valuable the product. No state can become prosperous without a diversity of industry. A purely agricultural community can never be very rich, but a community that takes its raw products and applies to them the labor necessary to perfect them for final consumption, adds to the value of what it possesses and increases the wealth that will flow into it when the finished product is sold or exchanged for the other material comforts of civilization that it needs.

Agriculture does not in its immediate operations require vast capital. Individual effort is sufficient, coupled with individual savings or borrowings. Indirectly, however, successful agriculture is indebted to centralized capital for improved machinery and tools. Manufacturing, on the other hand, cannot be carried on successfully except when the capital of many is combined with the labor and the toil of many. Would not Texas, with its vast area and great resources, be a more prosperous community if it encouraged associations and combinations of capital to build factories in its midst, instead of crippling them? Would not its farmers, by bringing into the state persons who engage in other fields of industry, find an increased army of consumers, whose demand for agricultural products would increase the prices which, according to Mr. Wooten, trusts tend to depress? Would not the multiplication of factories give to Texas people an opportunity to buy manufactured articles more cheaply, and thus offset that alleged tendency of industrial trusts to impose extortionate prices? Favorable corporation laws will not in themselves establish industries; but unfavorable ones will surely prevent their establishment and kill those now in existence. Would it not be wiser for Texas to try this remedy for trusts?

While, in the present stage of the trust problem, any attempt to limit either the size or the purposes of corporations seems to be a premature and hazardous remedy because of the probable crippling of our productive powers and the impairing of our chances of securing markets; while it seems much wiser to endeavor to ensure equality of opportunity and fairness in competition, to abolish all special privileges, to have publicity of all matters affecting the public, and then let all producers and distributers fight it out on the same line, each one being allowed to bring together and make use of whatever amount of capi-

tal he can profitably employ,—still if it be found after a trial that there are dangers in this course and that monopoly does exist as a result thereof, then the limitation of the amount of capitalization of our great corporations is the quickest and most practical and most certain way of preventing them from acquiring a controlling interest in any industry. It is not extremely improbable that we will be forced to limit their acquisition of those properties which are more or less natural monopolies, such as copper, iron, coal, gold, and silver mines. But, at best, the limitation of the capitalization or of the purposes of corporations is a kind of compromise measure. It will possibly save us from some of the evils of monopoly. It will secure to us a part, but only a small part, of the benefits of combination. We will save only a few of the wastes of competition. We may obtain nearly all the benefits that relate to mere production itself, but we are certain to lose most of the economics of distribution.

The problem of trusts subbests the possibility of socialism, or of that modified form of socialism which is called government ownership. The tendency towards concentration is, in the opinion of many, the steady march towards socialism. No one feels more certain of this than the socialist himself; no one is more sanguine than he in his observation of the size and the power of trusts. At their possibilities of monopoly he looks complacently, believing that when industry shall have reached the final point of extreme centralization its management and ownership will be wrested away from those now possessing it and taken over by the people in their collective capacity. Those who entertain these views say that the encouragement of the establishment of competitive enterprises against existing trusts is not desirable, even to keep down prices. They argue that, if a given number of factories, either run

separately or by one trust, is enough to supply the demand for commodities of that kind, then it is an economic waste to add to this number of factories. They point out that to encourage competition is contradictory to the almost universal tendency of the present day to combine for the very purpose of saving the loss of undue competition. They show that the encouragement of small competitive enterprises prevents the savings that trusts or combinations could otherwise effect, and they claim that in encouraging the return of competition we are slowly undermining the power of trusts for good, and that we are only a little less foolish than those who so fear the power of trusts that they render them useless as well as harmless by limiting the capitalization of corporations to so small a sum that they cannot acquire enough property to avail themselves of the means and methods of economical production and distribution. These persons reprove us for our failure to appreciate what they consider the true teachings of the universal tendency to restrict competition. They reproach us for our hesitancy in trying that solution of all these vexing problems which they think this universal tendency suggests, and which they deem to be not only correct theoretically, but sufficient practically. That remedy is in some form or other socialistic. It implies either government ownership or management. The reasoning of the advocates of remedies of this kind is plausible, and it cannot be denied that they occasionally fortify their arguments with incontrovertible facts. They themselves are in no-wise dismayed by the extent of the task. They look at the number of instances of municipal ownership of waterworks in America, of government ownership of railroads and telegraphs in Europe, and ownership by European cities of street railways and of gas and electric light properties, and at American laws regulating rates of fare

and freight on railways, and find in them precedents, as well as encouraging examples of governmental control and ownership. Doubtless certain lines of business, particularly transportation—not only trunk lines, but city surface systems—and the providing of water, gas, and electricity, and the disposal of sewage and kindred public services, are natural monopolies, and may properly and successfully be assumed by cities and states; but to undertake government control of those industries in which trusts are formed, namely, manufacturing, mining, and mercantile industries, is to enter upon a task of a very different character. Government *ownership* of such industries may be called, not improperly, socialism in its advanced stage. It may be that in distant ages that will be the form of business management, but it surely is one of the ideals to be realized only in the millennium.

Government *control* of corporations is not the same as government ownership, but it is an approach to it. It is probably fortunate that the trusts of to-day are corporations rather than individuals, for being creatures of law, they are properly subject to restriction by law. It has been seriously suggested that the proper course with regard to industrial combination is to encourage or permit the formation of gigantic corporations which may, if desired by their organizers, obtain all the productive agencies of any one industry; and then to enact laws limiting their profits, or arbitrarily fixing prices. Doubtless it would be possible to enact laws limiting dividends, and perhaps it would be possible to express the laws in such terms as to prevent many evasions, and practically to accomplish the purpose of the act; namely, to limit prices. The penalty for refusing to do the work for which a company was incorporated, at prices which would produce the profit arbitrarily fixed, would be dissolution. Doubtless a state or a government

could with perfect propriety say to a corporation of its creation, at the time of its incorporation, that it should charge only a certain price for a certain service, or that all of its profits above a certain amount should revert to the state. States have been known to do similar things in the case of railroad and gas companies and other quasi-public corporations. But economically it would be the height of folly to do this whenever competition was practicable. There are many objections to a scheme to limit profits. One is that it is manifestly unfair to impose a limit unless a fair profit is practically guaranteed.

The vital objection, however, is that a limit to profits means a halt to industrial progress. If a corporation can declare no dividend in excess of a fixed per cent, there is no inducement for it to cheapen its product. There is no incentive to inventive talent. What would be the use of introducing a labor-saving machine if one did not make more money by so doing? To limit dividends would be the worst folly imaginable. It would be less foolish to limit prices; to say to a great monopoly: "You shall not charge more than this sum, but if you introduce labor-saving machines and are thus able to produce more cheaply and to make a greater profit at those prices, you may have it." Who is there, however, wise enough to say what prices shall be charged? Dividends could possibly be limited, with provisions that any savings which were the result of cheaper processes or labor-saving machinery should accrue for limited periods to the persons introducing them, just as we give temporary monopolies to inventors. But all limitations on profits are restraints upon progress; the danger from them is that industry may become stagnant and dormant and decadent.

The belief in abstaining from intervention in private business matters is, moreover, so deep-rooted in Americans

that a proposition to limit the profits of corporations would be reluctantly adopted even as a last resort. Unquestionably, in the face of the very fact that business is everywhere being organized into great combinations for the purpose of killing competition, the people of this country prefer still to trust to the restraining influence of the active competition that survives and to potential competition, and to enact laws that will place competitors on an equal footing, rather than to socialize industry and upset all their established systems and notions. Government ownership, or government management or control of ordinary business enterprises by means of price regulation or dividend limitation, is an iridescent dream. It is a matter more of speculation than practical statesmanship. It may be a live issue long before the sun grows cold, but it is not the matter at hand. It is not the duty that lies before us. The practical man of the day—the man who suffers the evils of trusts and who seeks remedies—still believes that relief is to be found in the preservation of competition, and the remedies that he would adopt are remedies that seek to remove the obstacles to free and fair competition, namely, the abolition of special privileges, the prohibition of unfair competition, the requirement of that open publicity which calls competition into being, the punishment of all unreasonable restraints upon competition, the prevention of everything which creates actual monopoly or which is formed for the purpose of raising prices or which actually does raise prices. All these are remedies that tend to preserve that system of industry which, with all its wastes and sacrifices, all its evils and injuries, has nevertheless been the secret of all industrial success and of the world's prosperity.

The real need of the day, the pressing need, is information—publicity. We need it, not only in order to know

what to do, but as a remedy in itself. If we can have this publicity we can rely to a great extent upon competition, active as well as potential. We cannot for any great length of time be made the victims of extortion by trusts if their methods are open. We shall not long be charged more than a fair profit if their profits are known. High prices and big profits, if known to the public, will surely bring that competition which, through all history, has saved us, and which is as certain in its operation as natural forces. Capital will as surely be attracted to enterprises known to be profitable as the needle of the compass is sure to be attracted to the north. This is so, even although new establishments are not really needed for productive purposes. Knowledge is power to those who seek to ward off monopoly, but popular ignorance of their profits is the great secret of the trusts' occasional ability to charge undue prices.

Publicity by officers and directors and promoters of all our great corporations may not be a complete cure, but it is sure to be one of the most effective remedies for all the evils of trusts. It will unquestionably restrict the creation and establishment of all those trusts whose purposes are to plunder the community and to fleece investors; probably half of the trusts that now exist would never have been formed had there been publicity. It will counteract all the dangerous possible tendencies of the trusts which are honestly organized as means of cheaper and more abundant production, and it will enable them the better to serve their true purpose. It will be a protection to the shareholder and to the investor; it will be a "body-blow," even if not a death-blow, to extortionate prices; it will be the stimulus to higher wages and to better prices for raw materials; it will be the certain preventive of railroad discrimination and of all special favoritism; and the effective curb upon

every attempt by corporations to corrupt legislatures and public officials. There is hardly an evil—either those inherent or supposedly inherent in trusts, or those incidental to them—which full and complete publicity will not do much to remedy, even if it does not cure completely.

A step, then, of immediate practical importance, a remedy that, in the present light, we should employ for trust evils—one that permits the continuance of the universal tendency to consolidation which has so far always brought success to industry and which means cheap production and distribution, and yet one that holds us back from the socialism which would strike down individualism—is the remedy of publicity.

Demosthenes, when asked what are the three great essentials of oratory, replied, "First, action; second, action; third, action." If asked what is the remedy for the great evils, industrial, social and political, which are inherent or incidental to trusts, our answer would be, "First, publicity; second, publicity; third, publicity,"—the remedy which is most effective in itself and the remedy which alone can suggest the fourth and all others that may be needed.

Appendix A

THE FEDERAL ANTI-TRUST ACT, COMMONLY KNOWN AS THE SHERMAN ACT.

This act is entitled, "An act to protect trade and commerce against unlawful unrestraints and monopolies." It was approved July 2d, 1890. The act is as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled:

SEC. 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states or with foreign nations, is hereby declared to be illegal. Every person who shall make any such contract or engage in any such combination or conspiracy shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

SEC. 2. Every person who shall monopolize or attempt to monopolize, or combine or conspire with any other person or persons to monopolize any part of the trade or commerce among the several states or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

SEC. 3. Every contract, combination in form of trust or otherwise, or conspiracy, in restraint of trade or commerce, in any territory of the United States or of the District of Columbia, or in restraint of trade or commerce between any such territory and another, or between any such territory or territories, and any

state or states or the District of Columbia or with foreign nations, or between the District of Columbia and any state or states or foreign nations, is hereby declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

SEC. 4. The several circuit courts of the United States are hereby invested with jurisdiction to prevent and restrain violations of this act; and it shall be the duty of the several district attorneys of the United States, in their respective districts, under the direction of the attorney-general, to institute proceedings in equity to prevent and restrain such violations. Such proceedings may be by way of petition setting forth the case, and praying that such violation shall be enjoined or otherwise prohibited. When the parties complained of shall have been duly notified of such petition the court shall proceed, as soon as may be, to the hearing and determination of the case; and pending such petition and before final decree the court may at any time make such temporary restraining order or prohibition as shall be deemed just in the premises.

SEC. 5. Whenever it shall appear to the court, before which any proceeding under section four of this act may be pending, that the ends of justice require that other parties should be brought before the court, the court may cause them to be summoned, whether they reside in the district in which the court is held or not; and subpœnas to that end may be served in any district by the marshal therof.

SEC. 6. Any property owned under any contract or by any combination, or pursuant to any conspiracy (and being the subject thereof) mentioned in section one of this act, and being in the course of transportation from one state to another, or to a foreign country, shall be forfeited to the United States, and may be seized and condemned by like proceedings as those provided by law for the forfeiture, seizure and condemnation of property imported into the United States contrary to law.

SEC. 7. Any person who shall be injured in his business or property by any other person or corporation by reason of anything forbidden or declared to be unlawful by this act, may sue therefor in any circuit court of the United States in the district in which

the defendant resides or is found, without respect to the amount in controversy, and shall recover three-fold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

SEC. 8. That the word "person" or "persons," wherever used in this act, be deemed to include corporations and associations existing under or authorized by the laws of either the United States, the laws of any of the territories, the laws of any state or the laws of any foreign country.

Appendix B

ANALYSIS OF THE BILL PASSED BY THE HOUSE OF REPRESENTATIVES IN JUNE, 1900, AMENDING THE SHERMAN ACT.

"The bill amends the Sherman anti-trust law so as to declare every contract or combination, in the form of trust or conspiracy in restraint of commerce among the states or with foreign nations illegal, and every party to such contract or combination guilty of a crime, punishable by a fine of not less than $500 nor more than $5000, and by imprisonment not less than six months nor more than two years. It provides that any person injured by a violation of the provisions of the law may recover three-fold damages. The definition of 'person' and 'persons' in the present law is enlarged so as to include the agents, officers or attorneys of corporations.

"For purposes of commerce it declares illegal all corporations or associations formed or carrying on business for purposes declared illegal by the common law; provides that they may be perpetually enjoined from carrying on interstate commerce and forbids them the use of the United States mails. It provides for the production of persons and papers; confers jurisdiction upon United States circuit and district courts for the trial of causes under it and authorizes any person, firm, corporation or association to begin and prosecute proceedings under it."—*Ex.*

Appendix C

SECTIONS FROM THE NEW YORK LAW TO PREVENT MONOPOLIES.

The anti-monopoly law of New York is, "An act to prevent monopolies in articles or commodities of common use, and to prohibit restraints of trade and commerce, providing penalties for violations of the provisions of this act, and procedure to enable the attorney-general to secure testimony in relation thereto." This act became a law May 7th, 1897, and is as follows:

The people of the State of New York, represented in Senate and Assembly, do enact as follows:

SEC. 1. Every contract, agreement, arrangement or combination, whereby a monopoly in the manufacture, production or sale in this state of any article or commodity of common use is or may be created, established or maintained, or whereby competition in this state in the supply or price of any such article or commodity is or may be restrained or prevented, or whereby for the purpose of creating, establishing or maintaining a monopoly within this state, of the manufacture, production or sale of any such article or commodity, the free pursuit in this state of any lawful business, trade or occupation, is or may be restricted or prevented, is hereby declared to be against public policy, illegal and void.

SEC. 2. Every person or corporation, or any officer or agent thereof, who shall make, or attempt to make, or enter into, any such contract, agreement, arrangement or combination, or who, within this state, shall do any act pursuant thereto, or in, toward or for the consummation thereof, wherever the same may have been made, is guilty of a misdemeanor, and on conviction thereof

shall, if a natural person, be punished by a fine not exceeding five thousand dollars, or by imprisonment for not longer than one year, or by both such fine and imprisonment; and if a corporation, by a fine of not exceeding five thousand dollars.

SEC. 5. Whenever the attorney-general deems it necessary or proper to procure testimony before beginning any action or proceeding under this chapter, he may present to any justice of the supreme court an application in writing for an order directing such persons as the attorney-general may require to appear before a justice of the supreme court, or a referee designated in such order, and answer such relevant and material questions as may be put to them concerning any alleged illegal contract, arrangement, agreement or combination in violation of this chapter; if it appears to the satisfaction of the justice of the supreme court, to whom the application for an order is made, that such an application is necessary, then such an order shall be granted. . . .

SEC. 6. (As amended * in 1899 by the so-called Donnelly Law.) No person shall be excused from answering any question that may be put to him, or from producing any books, papers or documents, on the ground that the testimony or evidence, documentary or otherwise, required of him may tend to incriminate him; but no person shall be prosecuted in any criminal action or proceeding, or subject to any penalty or forfeiture for or on account of any transaction, matter or thing concerning which he may testify or produce evidence, documentary or otherwise, before said justice or referee appointed on order for his examination, or in obedience to the subpœna of the court or referee acting under such order or either of them, or in any such case or proceeding.

* It is under the above sections 5 and 6 that proceedings are pending for an examination of the officers of the American Ice Co. before Referee Nussbaum. Before amendment, section 6 permitted such examinations as hereinabove provided for, and declared that no evidence which a person was compelled to give in such proceedings could be used against him in any subsequent criminal prosecution. It was held by the New York courts that this did not sufficiently comply with the constitutional provisions against compelling a person to incriminate himself; hence the amendment as above, declaring that persons testifying in these proceedings shall have full immunity from criminal prosecution for acts as to which their testimony relates.

Appendix D

LIST OF ANTI-TRUST LAWS

Title.	Date of Enactment.
The Federal Anti-Trust Act	July 2, 1890.
Alabama Insurance Act	February 18, 1897.
Arkansas Anti-Trust Act	March 16, 1897.
California Cattle Trust Act	February 27, 1893.
Delaware Life Insurance Law	February 15, 1891.
Florida Legislation Relating to Trusts and Monopolies for the Control of Trade in Cattle	June 11, 1897.
Georgia Anti-Monopoly Act	December 23, 1896.
Illinois Act Prohibiting Pools, Trusts and Combines	June 10, 1897.
Indiana Anti-Trust Act	March 5, 1897.
Iowa Anti-Pool and Trust Law	May 6, 1890.
Kansas Law Prohibiting Trusts	March 8, 1897.
Kentucky Law Prohibiting Pools, Trusts and Conspiracies	May 20, 1890.
Louisiana Law for the Prohibition of Trusts and Combinations in Restraint of Trade	July 7, 1892.
Maine Anti-Trust Law	March 7, 1889.
Michigan Anti-Trust Act	July 1, 1889.
Minnesota Law to Prohibit Pools and Trusts	April 20, 1891.
Mississippi Law Prohibiting Trusts and Combines	March 11, 1896.
Missouri Anti-Trust Act	1891, 1895, 1897.
Montana Statute against Monopolies and Trusts	1895.
Nebraska Statute against Trusts and Conspiracies against Trade and Business	1895, 1897.

Title.	Date of Enactment.
New Mexico Law Declaring Trust Combinations Illegal	February 4, 1891.
New York Law to Prevent Monopolies	May 7, 1897.
North Carolina Law for the Prohibition of Trusts	March 11, 1889.
North Dakota Law Declaring Certain Trusts and Combinations Unlawful	March 9, 1897.
Oklahoma Law to Prevent Combinations in Restraint of Trade	December 25, 1890.
South Carolina Prohibition of Trusts and Combinations	February 25, 1897.
South Dakota Anti-Trust Law	March 1, 1897.
Tennessee Law to Prohibit Conspiracies and Trusts	April 6, 1889.
Texas Law for the Suppression of Trusts and the Promotion of Free Competition	March 30, 1889.
Utah Law Prohibiting Pools and Trusts	March 9, 1896.
Washington Law Forbidding Trusts and Monopolies	March 21, 1895.
Wisconsin Statute Prohibiting Trusts and Combinations in Restraint of Trade	April 27, 1897.

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